Lancashire County Council

Audit and Governance Committee

Wednesday, 26th September, 2012 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	**Item**	
1.	**Apologies**	
2.	**Disclosure of Pecuniary Interests** Members are asked to consider any 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 25 June 2012** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Management of vehicle assets - Progress report**	(Pages 9 - 10)
5.	**Update on Treasury Management Activity**	(Pages 11 - 20)
6.	**Internal Audit Service Progress Report**	(Pages 21 - 32)
7.	**Audit Commission: Review of Internal Audit**	(Pages 33 - 48)
8.	**Audit Commission: Annual Governance Reports 2011-12**	(Pages 49 - 96)
9.	**Approval of the Lancashire County Pension Fund's Statement of Accounts 2011/12**	(Pages 97 - 166)
10.	**Approval of the County Council's Statement of Accounts 2011/12**	(Pages 167 - 384)
11.	**Urgent Business**	

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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 14 January 2013 at 2.00 pm at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council
Audit Committee

Monday 25 June 2012

Minutes

Present:

County Councillors

S Chapman (Chair)

K Brown
M Parkinson
H Henshaw
D Westley
M Younis

Officers in attendance

George Graham – deputy county treasurer
Ruth Lowry – head of internal audit
Ian Rushworth – principal auditor
Ian Young – deputy county secretary and solicitor
Bernard Noblett – deputy director - LCCG
Andy Yates – head of enterprise architecture & design – One Connect Ltd
Karen Murray - district auditor, Audit Commission
Josh Mynott – committee support team leader
Cath Rawcliffe – committee support officer

1. Apologies

Apologies were presented on behalf of County Councillors J Lawrenson and M Welsh.

2. Appointment of Chair and Deputy Chair

The committee was informed that the County Council had appointed County Councillor S Chapman and County Councillor M Younis as Chair and Deputy Chair of the committee for the ensuing year.

Resolved:- That the appointment of County Councillor S Chapman and County Councillor M Younis as Chair and Deputy Chair of the committee be noted.

3. Constitution, Membership and Terms of Reference of the Committee

A report was presented on the constitution, membership and terms of reference for the ensuing year.

The committee was advised of changes to the committee's terms of reference with effect from 1 July 2012. The committee was also advised that the committee would be re-named the 'Audit and Governance Committee' to more accurately reflect its revised role.

Resolved: That:

(i) The membership of the committee be noted.

(ii) The committee's terms of reference be noted.

(iii) The revised terms of reference with effect from 1 July 2012, be noted.

(iv) The renaming of the committee to the 'Audit and Governance Committee' with effect from 1 July 2012, be noted.

4. Disclosure of Personal and Prejudicial Interests

County Councillor David Westley declared a personal interest in item 15 as a West Lancashire Borough Council Cabinet Member involved in the transfer of borough council ICT services to One Connect Ltd.

5. Minutes of the Meeting held on 26 March 2012

The committee questioned officers with regard to resolution 4 ii) of the minutes which called on the Internal Audit Service to report back to the committee with the views of the cabinet members on any corporate or service area where they had given limited or no assurance.

The committee noted that the matter was being considered by Executive Directors, and asked for the committee's views to be re-emphasised in those discussions.

Resolved: i) That the views of the committee on the issue be re-emphasised to Executive Directors.

ii) That the minutes of the meeting held on 26 March 2012 be confirmed and signed by the chair.

6. Review of Treasury Management

A presentation was made to the committee by George Graham, deputy county treasurer.

The report outlined the treasury management activities of the county council throughout 2011/12 and included:

- A review of the economic conditions during 2011/12 and the impact on the county council's borrowing and lending activities.
- Borrowing to finance capital expenditure.
- Investment of cash balances
- Monitoring of prudential indicators for 2011/12
- An update on the investment frozen in Landsbanki hf.

The report also included an update on the Audit Commission's review of the council's treasury management function which included further work on governance arrangements and reporting; enhancing the level of skills and experience within the team; and procuring a new treasury management information system.

Members raised a number of queries with regard to the borrowing and lending activities of the council and noted that there was a significant level of short term borrowing which needed to be constantly refinanced as part of the strategy to benefit from low short term interest rates. The committee also noted the significant underspend on the capital finance budget.

Resolved: - That the review of treasury management activities in 2011/12 as shown at appendix A to the report now presented, be noted.

7. Management of vehicle assets – Progress report

Bernard Noblett, deputy director, Lancashire County Commercial Group (LCCG) presented a report on the actions taken in response to issues raised by the internal audit service on the management of vehicle assets.

It was reported that:

- The majority of the county council's vehicle fleet was managed within LCCG and procedures were in place to cover vehicle hire, insurance and driver licence checks etc for this group of vehicles and drivers.

- A Fleet and Driver Management Policy with associated guidance was being developed for employees in the rest of county council.

- Other issues identified in the internal audit report which related specifically to the fleet management function in LCCG now had agreed management responses and actions in place.

The deputy director advised the committee that the draft Fleet and Driver Management Policy for employees was expected to be finalised shortly.

The committee welcomed the report and requested that a further progress report on the management of vehicle assets, be presented to the next meeting of the committee in September 2012.

Resolved: i) That the report be noted.

ii) That a further report on the management of vehicle assets be presented to the next meeting of the committee on 26 September, 2012.

8. Legislative Compliance

Ian Young, deputy county secretary and solicitor presented a report on the arrangements currently in place across the council to ensure that existing and emerging legislation was identified, considered, implemented and reviewed.

The report also described the processes in place to ensure that the legal implications of decisions taken by the Council, its committees and members were appropriately considered in advance.

The Chair thanked the deputy county secretary and solicitor for his comprehensive report.

Resolved: That the report be noted.

9. Annual Governance Statement 2011/12

A report on the Annual Governance Statement (AGS) was presented by Josh Mynott, committee support team leader. The statement was prepared in compliance with the Accounts and Audit Regulations 2011, which requires a review to be conducted of the governance arrangements in the authority.

This had been achieved by means of obtaining statements of assurance from executive directors and by reference to the annual report of the head of internal audit.

The new Annual Governance Statement was presented at Appendix ‘A’.

The Statement outlined areas where there was a programme for improvement in the coming year and a number of changes that had been agreed for several aspects of the governance regime for 2012/13. These include those areas outlined in the annual report of the Head of Internal Audit in respect of information governance, continuity and contingency planning, treasury management, compliance with procurement procedures and revisions to governance structures.

It was noted that the Annual Governance Statement was to be signed by the leader and the chief executive for the year in question, and the committee was asked to approve it.

Resolved: That the Annual Governance Statement for 2011/12 as now presented, be approved.

10. Response of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing

The committee considered a response to the Audit Commission's request for information to support its compliance with international standards on auditing and quality control.

The Chair of the Audit Committee was asked to provide information in respect of both Lancashire County Council and the Lancashire Pension Fund relating to:

- fraud and internal control;
- laws and regulations;
- litigation and claims; and
- assurance that the council is a 'going concern'.

A response to the commission had been prepared on behalf of the county Treasurer and was set out at Appendix A to the report. The Chair of the committee was requested to sign the response once it had been approved by the committee.

Resolved: That, the response to the Audit Commission's request for information to support its compliance with international standards on auditing and quality control, as set out at Appendix A, be approved and signed by the Chair of the committee.

11. Internal Audit: annual report to the authority for 2011/12

The committee considered the Internal Audit annual report for 2011/12, as presented by Ruth Lowry, head of internal audit.

The report was presented in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The opinion given in the report confirmed that there was generally a sound system of internal control, adequately designed to meet the council's objectives, and that controls were generally being applied consistently.

The report identified individual key issues and themes that presented limited exceptions to this broad conclusion. These included ICT services and vehicle management which were the subject of separate reports on the agenda.

It was reported that the matters included in the report had been discussed with the relevant service management teams as well as with the council's Management Team and action plans had been agreed and were being implemented.

In response to concerns raised at the number of corporate and service areas that had received limited assurance, the head of internal audit assured the committee that the council was continuing to follow a clear trajectory of continuous improvement in the common controls that underpinned the work of all its services.

Resolved: That the internal audit annual report to the authority for 2011/12 be noted.

12. Internal Audit Service progress report

The head of internal audit presented the internal audit progress report for the year to date.

The report summarised the work undertaken by the council's Internal Audit Service under the internal audit plan for 2011/12 and the work carried forward from the previous audit plan completed during April and May 2012.

The report supplemented the internal audit annual report also presented to the Audit Committee at the meeting.

Of particular concern to members was the council's procurement process which had been reported as an area of non-compliance. The committee was advised that procurement was being more tightly controlled through the introduction of Oracle and i-procurement systems. In addition, the Internal Audit Service was working with the new director of procurement to ensure that the control framework for procurement across the council was more robust. It was noted that a further assessment of the procurement process would be carried out once the changes were in place and that progress would be reported back to the committee.

Resolved: That the internal audit progress report for the year 31 March, 2012 and work relating to that year completed during April and May 2012 as now presented, be noted.

13. Counter fraud and special investigations annual report 2011/12

The committee was reminded that following changes to the standards regime, the Audit Committee's remit had been extended to include oversight of the council's counter fraud and whistleblowing arrangements.

Ian Rushworth, principal auditor, presented a summary of the work performed by the Internal Audit Service during 2011/12 to support management in preventing and detecting fraud and corruption.

It was noted that during 2011/12, the Internal Audit Service had carried out 24 special investigations on a wide range of allegations including inappropriate expenditure, data breaches and failure to disclose business interests.

It was also noted that no single issue had been identified that would have a material impact on the county council's overall control environment.

A copy of the annual report was presented at Appendix ’A’.

Resolved: That the 2011/12 counter fraud and special investigations report as now presented, be noted.

14. Audit Commission – Audit Committee update report June 2012

Karen Murray, district auditor, presented an update of the audit work undertaken by the Audit Commission against the 2011/12 Audit Plan for the Council and Pension Fund.

It was noted that progress was on track and there were no issues or new audit risks to report. The report included details of the Commission's work programme and scale of fees for 2012/13 which included an additional fee for undertaking a detailed review of the Council's internal audit.

Resolved:- That the report be noted.

15. ICT Service Update

Andy Yates, head of enterprise architecture & design at One Connect Limited presented an update on the actions taken in response to the internal audit report on ICT services.

The report included progress on work performed and work planned in relation to ICT security and Vulnerability Management; the current Data Centre facility and; Information Governance and Acceptable Use Policies (AUP's).

The report also included an update on future major changes in relation to ICT. These changes included work packages that would allow a more mobile workforce and also increased engagement with all directorates to ensure that One Connect Limited were delivering ICT solutions that align with the business requirements of each directorate.

The Chair thanked the head of enterprise architecture & design for his detailed report.

Resolved:- That the report be noted.

16. Urgent Business

There were no items of urgent business.

17. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Wednesday 26 September 2012 at 2.00 p.m. at the County Hall, Preston.

I M Fisher
County secretary and solicitor

County Hall
Preston

Audit and Governance Committee
Meeting to be held on 26 September 2012

Electoral Division affected:
None

Management of vehicle assets – Progress report

Contact for further information:
Bernard Noblett, 01772 536945, Lancashire County Commercial Group,
Bernard.noblett@lancashire.gov.uk

Executive Summary

This paper provides an update on the actions taken in response to the internal audit report on the management of vehicle assets produced in February 2012.

Recommendation

The Committee is requested to consider the report and comment on the actions being taken.

Background and Advice

An internal audit report on vehicle asset management in Lancashire County Council was prepared in February 2012. A number of issues were identified, some of which related to the fleet management function in Lancashire County Commercial Group, whilst others applied throughout Lancashire County Council.

The majority of Lancashire County Council's vehicle fleet is currently managed within Lancashire County Commercial Group and procedures are in place to cover vehicle hire, insurance and driver licence checks etc for this group of vehicles and drivers. However, it was recognised that there is currently no Corporate Fleet Management Policy or guidance for employees in the rest of Lancashire County Council.

As a result a Fleet and Driver Management Policy with associated guidance has been developed. This is to be submitted to the Leader of the County Council for his consideration and approval.

Other issues identified in the internal audit report which related specifically to the fleet management function in Lancashire County Commercial Group now have agreed management responses and actions in place.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

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Electoral Division affected: None

Update on Treasury Management Activity
Appendix A refers

Contact for further information:
Mike Jensen, County Treasurer's Department, (01772) 534742
mike.jensen@lancashire.gov.uk

Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities during the current financial year to the end of August. Treasury management activities are regulated by the CIPFA Code of Practice and it is best practice to review treasury management activities on a regular basis. This report will form the basis of a half yearly review to be reported to Cabinet and County Council as part of the effective governance and oversight of treasury management activities.

This review includes:

- A review of the economic conditions during 2012/13
- An assessment of the appropriateness of treasury strategy to the current and predicted economic environment
- Borrowing to finance capital expenditure
- Investment of cash balances
- Comparison of current borrowing levels with 2012/13 prudential indicators.

Recommendation

The Committee is recommended to note the review of treasury management activities for 2012/13 to date.

Background and Advice

In accordance with requirements of the CIPFA Code of Practice on Treasury Management 2009, the County Council produces an annual treasury management strategy, an annual review of treasury management, and quarterly reports on treasury management activity to Audit Committee. This quarterly report outlines a review of the borrowing and lending activity during 2012/13 to date and sets this

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activity against the current economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Sterling Consultancy Services provides advice on treasury management.

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

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

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2012/13	Feb 2012	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Appendix A

Treasury Management Activity Mid-Year Report 2012-13

Background

At the meeting of Cabinet on 9 July 2009, it was agreed that in order to strengthen members' oversight of the County Council's treasury management activities, the Audit Committee should receive regular updates on treasury management issues and that members of the Audit Committee should receive more detailed training in order to enable effective oversight of the County Council's treasury management activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report considers treasury management activity over the first 5 months of the financial year.

Economic Overview

The European Central Bank's long-term refinancing operations, supplying cheap funding to the Eurozone banking system initiated a calmer period of financial market activity in the early weeks of the new financial year. However a number of events pushed the crisis back to the fore: the two Greek general elections, the failure of Spanish bank Bankia and subsequent bailout speculation for the sector, and signs that the Eurozone economy was experiencing a deeper downturn in economic activity than previously expected. Meanwhile, yields on Spanish 10-year government bonds regularly exceeded seven percent, the danger level at which Ireland and Portugal approached the Eurozone/IMF for bailouts. Risk appetite plummeted; the FTSE 100 dropped 3.4% over the three months to June, while yields on safe haven bonds, including UK gilts and German bunds, regularly dipped to new record lows.

The reaction to the on-going sovereign crisis was exacerbated by the developing slowdown in global economic growth, as the Eurozone recession and uncertainty depressed confidence and business activity in other large economies.

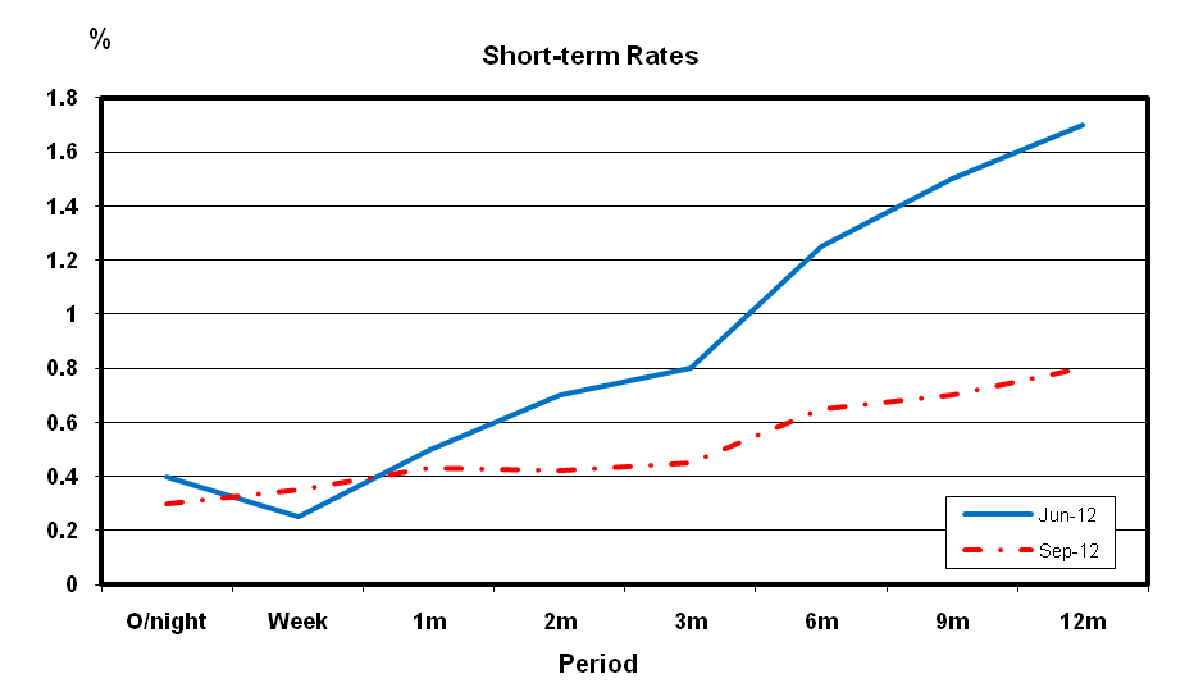
In the UK the recession continued into quarter two, with the loss of a working day to the Jubilee bank holiday the primary factor. However, the UK was not immune to the uncertainty emanating from the Eurozone, and data suggested that underlying business conditions had weakened. Trade data indicated that goods exports to the Eurozone were declining, a particular problem for a manufacturing sector struggling with weak domestic demand.

The banking sector and credit bottleneck were perceived to be an important factor holding back economic recovery, prompting HM Treasury and the Bank of England to announce two schemes in June to reduce bank funding costs and increase the availability of cheaper finance for businesses. The Bank's intervention in the money markets placed downward pressure on Libor rates; 3-month LIBOR declined around 30 basis points during the half year to 0.70%. The deteriorating domestic and global economic conditions also boosted support for further monetary stimulus and the

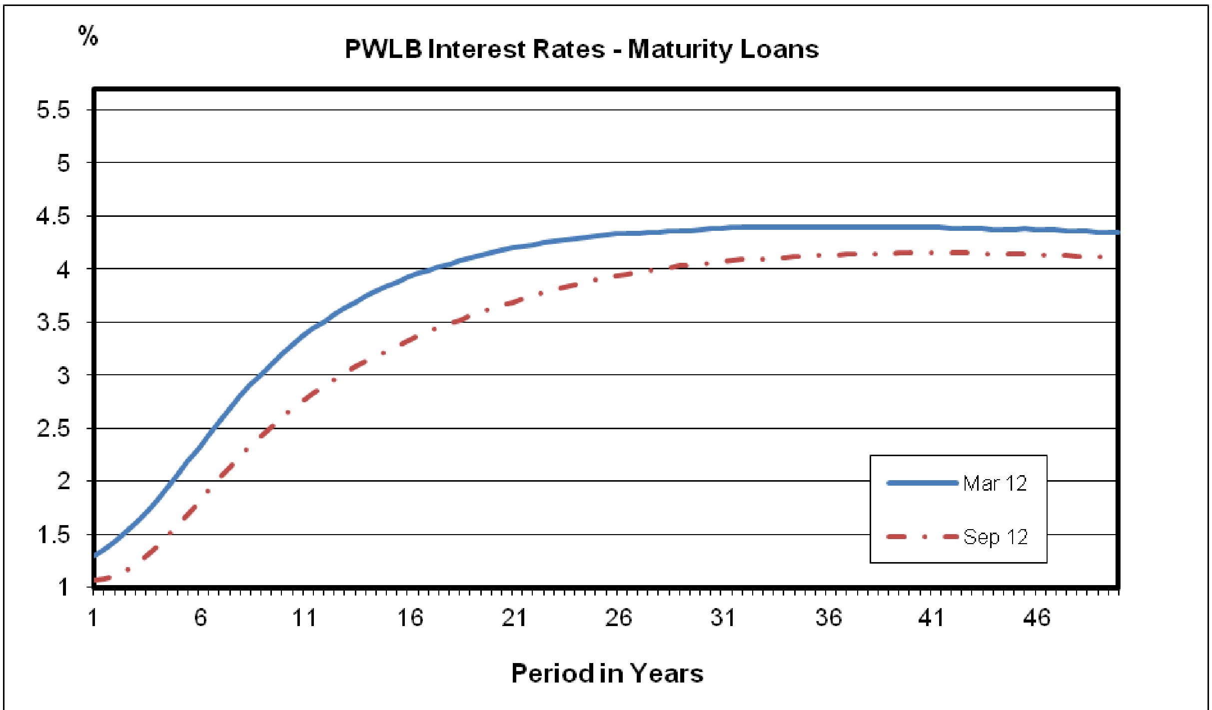
Monetary Policy Committee (MPC) duly increased the Asset Purchase Facility by £50bn to £375bn, the third tranche of quantitative easing.

Interest Rate Environment

Short term interest rates continue at the very low levels since the Bank of England reduced base rate to 0.5% in March 2009. The chart below shows the downward pressure and movement of rates over the first half of the year.



Current longer term Public Works Loan Board (PWLB) rates are shown below.



During the summer uncertainty in world markets has increased the demand for UK government debt which has benefited UK interest rates. The effects of this can be seen in the fall of the PWLB rates in the period. The shape of the curve has remained constant with rates much lower at the short end.

Outlook for Interest Rates

The recent downward trend in the CPI inflation rate allied with the apparent synchronised global downturn led by the Eurozone has pushed market expectations for a rise in interest rate out to at least 2014. Although previously discounted by the MPC, there is now also the possibility of a cut in Bank Rate to 0.25%. The latest central forecast from the Council's treasury management advisers, Sterling Consultancy Services is shown below. The risks to the forecast remain heavily to the downside, arising largely from the impact of the Eurozone sovereign debt crisis on UK business and household confidence.

Period	Bank Rate	3 month LIBOR	12 month LIBOR	25-year PWLB rate
Q3 2012	0.50	0.70	1.40	4.00
Q4 2012	0.50	0.65	1.20	4.10
Q1 2013	0.50	0.65	1.30	4.10
Q2 2013	0.50	0.70	1.40	4.15
Q3 2013	0.50	0.70	1.45	4.25
Q4 2013	0.75	0.95	1.60	4.50
H1 2014	1.25	1.45	2.00	4.85
H2 2014	1.75	1.95	2.50	5.10
H1 2015	2.25	2.45	3.00	5.25
H2 2015	2.75	2.90	3.50	5.50

Current Treasury Management Policy

The current borrowing policy of keeping a higher proportion of borrowing at variable rates or short dated maturities is enabling the County Council to take advantage of the very low rates available on short term borrowing. In addition, given that the current pressure on rates is still downwards, it positions the County Council to take advantage of any further falls in longer term rates in the near future.

The current investment policy of accessing high credit quality institutions through bond investments as opposed to placing fixed term deposits directly with banks continues to be the County Council's preferred strategy given the continued difficult credit environment.

Investment Activity

The table below shows investment activity during April to August 2012

Bank Deposits

	Call	Fixed	Structured	Total
	£m	£m	£m	£m
Balance 1st April	**22.90**	**140.60**	**124.18**	**287.68**
Maturities	(1069.79)	(11.00)	-	(1080.79)
New Investments	1063.40	-		1063.40
Balance 31st August	**16.51**	**129.60**	**124.18**	**270.29**

Bonds

	Local Authority Bonds	UK Govt Gilts	Corporate & Supra-nationals	Total
	£m	£m	£m	£m
Balance 1st April	**20.66**	**265.02**	**0.07**	**285.75**
Maturities	-	(935.84)	(209.45)	(1145.29)
New Investments	17.25	849.74	295.80	1162.79
Balance 31st August	**37.91**	**178.92**	**86.42**	**303.25**

Overall the level of investments has remained static, however the continued heightened credit risk profile of European interest rate markets and the ongoing liquidity issues for the banks and their funding position required a re-alignment of credit exposure, and maturing fixed deposits have not been replaced, but rather switched into the relative security of government and highly rated corporate bonds. Additionally the County Council is examining whether it is possible to negotiate the provision of collateral by counterparties for some traditional deposits as a means of further reducing risk exposure.

Borrowing Activity

Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between April and the end of August 2012. The total is net of transferred debt.

	PWLB Fixed Rate £m	PWLB Variable Rate £m	Long Term Market Loan £m	Other Locals £m	Police, Fire and Lancashire District Councils £m	TOTAL £m
Balance 1st April	**167.87**	**185.75**	**51.66**	**304.60**	**63.19**	**773.07**
Maturities		(60.00)		(201.60)	(333.59)	(595.19)
New Borrowing	0.43		0.35	176.50	365.47	542.75
Balance 31st August	**168.30**	**125.75**	**52.01**	**279.50**	**95.07**	**720.63**

As part of the strategy to reduce credit risk, the County Council has been following a policy of reducing borrowing levels and this has continued over the first half of the current financial year. Total borrowing now stands at £1.139m including the financing of £419m of assets through Private Finance Initiative schemes.

Prudential Indicators

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31st August 2012 compared to the prudential indicators set in the treasury management strategy for 2012/13 is set out below.

Treasury Management Prudential Indicators	**2012/13** £M	**31st Aug Actual** £M
1. **Adoption of CIPFA TM Code of Practice**	ADOPTED	
2. **Authorised limit for external debt** - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	791	720
Other long-term liabilities(PFI schemes)	525	419
TOTAL	1316	1139
3. **Operational boundary for external debt** - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of		

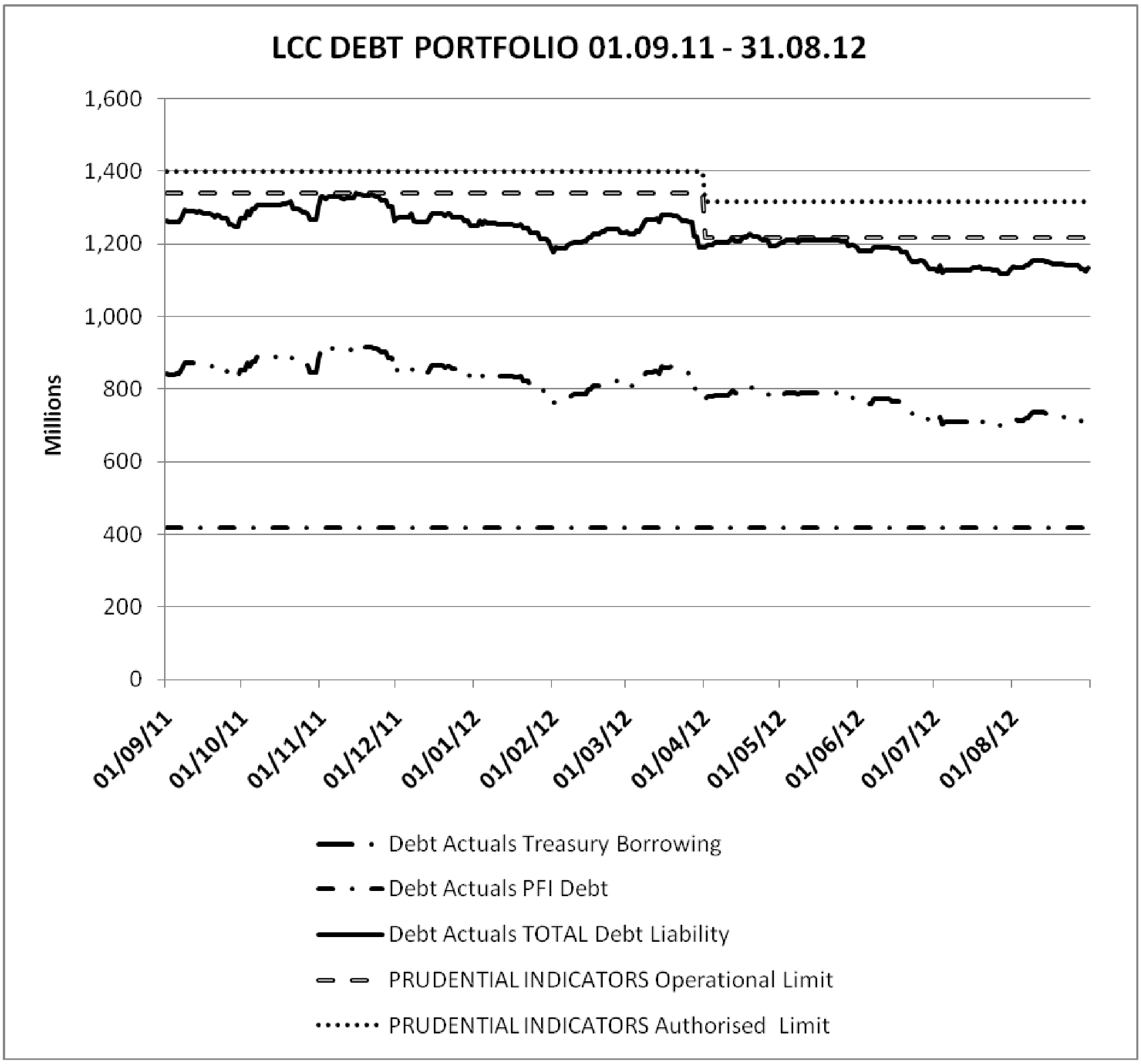
the County Council's current plans.

Borrowing	741	720
Other long-term liabilities	475	419
TOTAL	1216	1139

4. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	51.98
12 months and within 2 years		75	-
2 years and within 5 years		75	-
5 years and within 10 years		75	21.40
10 years and above	25	100	26.61

The graph below shows the level of debt for each day of the past calendar year compared with the prudential indicator operational and authorised boundaries.



Budget Monitoring Position

At this stage in the year the forecast, as recently reported to the Cabinet, remains that the financing charges budget set out in the table below will be on budget at the end of the financial year.

	Cash Limit	Est Actual	Variance
	£m	£m	£m
MRP	25.996	25.996	
Interest Paid	20.720	20.720	
Interest Received	(11.309)	(11.039)	
Grants	(0.403)	(0.403)	
	35.004	35.004	-

This position is kept under regular review taking account both of ongoing performance and also market movements and the forecast is provided to the County Treasurer on a monthly basis.

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Meeting to be held on 26 September 2012

Electoral Division affected: All

Internal Audit Service Progress Report
(Appendices A & B refer)

Contact for further information:
Ruth Lowry, (01772) 534898

Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report for the six months to 30 September 2012 (Appendix A).

Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the six months to 30 September 2012.

Background and advice

The committee may be interested to understand the internal audit work performed, the key issues emerging from it and management's responses to it.

Appendix A to this report summarises the main issues emerging from the internal audit work completed to date. Appendix B sets out the work performed against the annual audit plan for the year and the assurance assessment provided where work has been completed, including our work to assess progress against management's agreed action plans. The table in this appendix also indicates where the audit plan has been amended.

Internal audit assurance

Internal audit assurance is stated in the following terms:

> ***Full assurance***: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.
>
> ***Substantial assurance***: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.
>
> ***Limited assurance***: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.
>
> ***No assurance***: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Lancashire County Council

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

Appendix A

Matters arising from internal audit work completed during the period

1 Introduction

1.1 This report highlights key issues that the Audit and Governance Committee should be aware of to fulfil its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

1.1 It summarises the work undertaken during the five months of the year to 31 August 2012 by the council's Internal Audit Service under the internal audit plan for 2012/13. The findings included in this report have been agreed with executive directors and shared with the Management Team.

1.2 A full table of all the audit work planned for 2012/13 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have been deferred or removed from the plan, and where additional work has been included in the programme for the year.

1.3 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

2 Key issues

Corporate arrangements in relation to information governance

2.1 Information governance controls remain in place where procedures have been set out in the past, but this control framework has not been well maintained in recent years. Where processes are already established they continue to be used by the officers who are aware of them, but little action has been taken for some time to ensure that there is any general awareness of the need for information security, how to guard this effectively, how to recognise that security has been breached and what action to take if it has. Additional time and resources will be required to reinvigorate the control processes in place and ensure that an adequate and defensible framework of information governance operates across the whole council.

2.2 We reported in June 2012 that we could provide substantial assurance over the use of emails by council officers, but we could give only limited assurance over incident and problem management. We have now also completed our work on data sharing with partners and can give only limited assurance over this area. The local arrangements employed by the service areas we tested are adequately designed to ensure that data is protected, but the council's overall corporate information sharing arrangements are out of date, incomplete and not complied with.

Management of children's social care case referrals

2.3 During 2011/12 we provided limited assurance in relation to the assignment of children's social care cases to social workers. In June 2012 we reported that we had followed up the action plan agreed by management, focussing on the key issues and performing some limited testing on the other agreed actions, but that the recommendations had not been implemented as intended by February and March 2012. We found in particular that cases were still allocated to ceased social workers and managers and that caseloads for ceased workers were not being reviewed on a regular basis.

2.4 In July 2012 we selected a sample of social workers who have recently left the council's employment and found that no cases were allocated to them on the social care system. We will undertake a full re-review of this area later in the year to confirm that management's action plan has been fully implemented.

3 Internal audit performance

Annual client satisfaction survey

3.1 We requested feedback during the summer of 2012 using a questionnaire available to all council officers via the Internal Audit Service's page on the council's intranet, and this was also made available to officers of our external clients. The response rate was better, at 35, than in the previous three years, when the there have been between 22 and 27 responses.

3.2 The overwhelming majority of the officers who responded to the survey rate us as good or excellent and our clients have again recognised real improvements in our service to them. There is evidence of clearly measurable continuous improvement in the work of the Internal Audit Service that has been sustained over a number of years. However the Service continues to assess what we do and how we do it and to make changes as necessary.

Annual self-assessment against professional standards

3.3 As part of the performance management framework for the service we have again also undertaken an annual self assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK to assess compliance with this Code is undertaken. The results show a high degree of compliance but in accordance with good practice, the Audit Commission has completed its external review of the Internal Audit Service and this work has been separately reported to the Audit and Governance Committee.

Control	Audit review	Audit scope	Comments	Assurance
Corporate controls				
Governance				
	Support to management, including input to the council's annual governance statement.		Work is ongoing with the Assistant County Secretary to consider the council's governance arrangements as the Standards regime changes and the implications of the draft Local Audit Bill.	
	Corporate performance monitoring.	Risk and control evaluation (RACE)-based review.	Work has not yet begun.	
	Implementation of member's decisions and decision-tracking.	RACE-based review.	Work has not yet begun; this is linked to work carried forward from 2011/12 relating to consideration of the legal implications of decisions before they are proposed and made.	
	Staff acceptance of gifts and hospitality.	RACE-based re-review – previously limited assurance.	This work has begun but is not yet complete.	
	Staff disclosures of business interests and their use by management.	RACE-based re-review – previously limited assurance.	This work has begun but is not yet complete.	
Working in strategic partnership				
	Funds flow between LCC and One Connect Ltd.	RACE-based review.	This work is close to completion and a draft report is being discussed with management.	
Legislative compliance				
	Follow-up: Overall control of the council's response to new legislation.	Follow-up review.	The Deputy County Secretary and Solicitor presented a report to the Audit Committee in June 2012 addressing assurance over the council's compliance with legislation. This assessment was accepted and requires no further follow-up work.	
	Consideration of the legal implications of decisions and the council's response to legislation.	RACE-based review – completion of prior year's work.	This work is on-going. Testing is being undertaken specifically in relation to the Registrars and Trading Standards services.	
Information governance				
	Overall corporate arrangements.	RACE-based re-review.	Information governance arrangements are still subject to further development. The Internal Audit Service is supporting management as the council's new arrangements are being developed, but cannot yet provide assurance over the controls currently in place.	
	Overall corporate arrangements for data sharing with partners, supported by work in directorates.	RACE-based review – completion of prior year's work.	The local arrangements employed by the service areas we tested are adequately designed to ensure that data is protected. However the corporate information sharing arrangements are out of date, incomplete and not complied with. The council does not therefore meet the requirements defined in the Code of Practice for Data Sharing and we are able to provide only limited assurance in respect of the council's information sharing arrangements.	Limited
	Follow-up: Overall corporate arrangements for data sharing with partners.	Follow-up review.	This area will be subject to a full re-review, which will be undertaken in conjunction with a review of the council's overall corporate information governance arrangements once these have been resolved.	
Cross-service controls				
Business continuity and emergency planning				
	Overall corporate arrangements.	RACE-based review.	This work has begun and fieldwork is on-going.	
Partnerships/ accountable body				
	The council's accountable body role.	RACE-based re-review – previously limited assurance.	This work has not yet begun.	
Reablement				
	Reablement service commissioned by ACS and provided by LCCG.	RACE-based re-review – previously limited assurance.	This work will be deferred into 2013/14 because the Reablement Service has been fundamentally redesigned and is being re-launched during September 2012.	
Transition from children's services to adult services.				
	Transition from children's services to adult services.	RACE-based re-review – previously limited assurance.	The arrangements to support young people as they move from children's services to receiving services as young adults have recently been reviewed and re-designed; this audit work has not yet begun.	
Transport				
	Accessible transport arrangements including internal re-charges, building on work undertaken in 2011/12.	RACE-based re-review – limited audit work gave no assurance in 2011/12.	This area is under management review at present but audit work is currently planned for later in the year.	
	Safeguarding children's transport.	RACE-based re-review – previously limited assurance.	This work is scheduled to begin shortly.	

Control	Audit review	Audit scope	Comments	Assurance
Common controls				
Financial controls				
	Accounts payable.	Compliance testing (split start and end of year).	This work has begun.	
	Accounts receivable.	Compliance testing (split start and end of year).	This work has not yet begun.	
	Budgetary monitoring and control and scheme of delegation.	RACE-based review.	This work is scheduled for late in the year as the new arrangements for budget-holders following implementation of the Oracle R12 financial system settle down.	
	Cash & banking.	Compliance testing.	This work has not yet begun.	
	Capital accounting.	RACE-based review, to tie into work on directorates.	This work has not yet begun, but it may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets. It is linked with specific projects in each of the directorates, and the results of each piece of work will be considered as a whole as well as individually.	
	Expenses.	Compliance & computer assisted audit techniques (CAATs) testing (split start and end of year).	Testing has been completed and the findings are being discussed with Human Resources management.	
	General ledger.	Compliance testing.	This work has not yet begun.	
	Payroll.	Compliance & CAATs testing (split start and end of year).	This work has not yet begun.	
	Payroll codings to the general ledger	Compliance & CAATs testing (split start and end of year).	This work has not yet begun.	
	Payroll controls in LCCG.	Compliance testing.	This work is on-going.	
	Follow-up: payroll controls in LCCG.	Compliance testing and follow-up work.	This work will follow completion of the work noted above.	
	Treasury management.	RACE-based review.	We will follow up the action taken in response to the Audit Commission's report on this area during 2011/12 during the third quarter of the year.	
	VAT.	Compliance testing.	This work is due to begin shortly.	
	Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2.	RACE-based review.	Our work on this project continues; phase 2 includes work on fixed assets and procurement modules.	
HR controls				
	'Ask HR' service	RACE-based review.	We have completed this work and a draft report has been issued to management for discussion.	
	Hierarchies in the Oracle HR/ payroll system.	Compliance testing.	This work has not yet begun.	
	Leave system	Compliance testing.	This work has begun and early findings are being discussed with management.	
	Long term sickness absence	RACE-based review.	This work has not yet begun.	
	Oracle HR/ payroll system.	RACE-based review.	This work has not yet begun.	
	Redundancy process.	RACE-based review.	This work has now been removed from the audit plan as the redundancy process is subject to close management scrutiny.	
	Follow-up: Redundancy process.	Follow-up review.	Since this work follows that above, it has also been removed from the audit plan.	
	Follow-up: Redeployment process.	Follow-up review – substantial assurance in 2011/12.	Since no recommendations arose from the original work there is no action plan to follow up and this work has been removed from the audit plan.	
ICT controls				
	Data centre.	RACE-based re-review – limited assurance in 2011/12.	Work to address the issues raised during 2011/12 is still on-going and it is not yet appropriate to re-review this area.	
	Email use.	Follow-up review – substantial assurance in 2011/12.	The management response to this work is subject to agreement of the wider actions required in relation to information governance. Until this framework of controls is in place we do not propose to undertake any further work in this area.	
	Help desk.	RACE-based review.	This work will take place later in the year.	
	Implementation of Lancashire Electronic Content System (LECS) and identity management.	Advice and assistance, including attendance at corporate groups.	LECS has been superseded by the council's plans to introduce a 'Resolution Centre' which is likely to be used to manage all the council's data. However approval has now been given to procure and implement an identity management system; the Internal Audit Service has supported the preparation of the business case for this. It is unlikely that there will be any further audit input on these areas.	

Control	Audit review	Audit scope	Comments	Assurance
	Incident and problem management.	RACE-based re-review – limited assurance in 2011/12.	Like our work on email usage and data sharing with partners, the management response to this work is subject to agreement of the wider actions required in relation to information governance. Until this controls framework is in place we do not propose to undertake any further work in this area.	
	Network access.	RACE-based review.	This work has begun and is continuing.	
	Password standards.	Compliance testing	This work has begun and is continuing.	
	Security of mobile devices.	RACE-based review.	This work has not yet begun.	
	Web applications.	RACE-based review.	This work has not yet begun.	
	Web content management.	RACE-based review.	This work has not yet begun.	
	Web usage.	RACE-based re-review.	This work has begun and is continuing.	
	Vulnerability management.	RACE-based re-review – limited assurance in 2011/12.	This work has not yet begun.	
	Database security.	RACE-based review – completion of prior year's work.	This work was started late in 2011/12 and is on-going.	
	Follow-up: Database security.	Follow-up review – subject to assurance level of original work.	This work has not yet begun.	
Procurement				
	Districts', schools' and other organisations' use of the Procurement Centre of Excellence (the risks to LCC).	RACE-based review.	This work has been removed from the audit plan as the key risks relate to One Connect Ltd rather than the county council.	
	Procurement Centre of Excellence – purchasing control compliance testing (including follow-up of previous audit work).	RACE-based review and follow-up work.	This work is planned for later in the year.	
	Procurement Centre of Excellence – tendering control compliance testing (including follow-up of previous audit work).	RACE-based review and follow-up work.	This work is planned for later in the year.	
Estate management				
	Follow-up: Premises management framework - LCC services.	Follow-up review – substantial assurance in 2011/12.	We will follow up the work undertaken last year on compliance with the corporate premises management framework but this has not yet begun.	
	Follow-up: Property asset inventory control and usage – high level controls.	Follow-up review – substantial assurance in 2011/12.	This work has begun.	
	Property asset inventory control and usage – reactive repairs and planned maintenance.	RACE-based review.	Substantial assurance was given last year over the high level controls over the council's property assets. Since the audit plan was agreed in March 2012, a further project has been added to assess the more detailed controls over reactive repairs to property and the planned maintenance programme: this work has begun.	
Service specific controls				
Adult and Community Services (ACS)				
	Support to management.		We have supported management in considering the procurement of certain historic social care contracts, and in examining arrangements relating to the Lancashire Centre for Independent Living.	
	Capital accounting (related to other central audit work and work in the directorates).	RACE-based review.	This work is linked with other work on the common financial systems and may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets.	
	Care decision-making panels.	RACE-based review.	This work is scheduled to begin in October.	
	Care navigation system; individual selection of personal care providers.	RACE-based review.	This work is scheduled to begin in November.	
	Data quality for performance management (related to central audit work on performance management).	RACE-based review.	Terms of reference are being discussed with management.	
	Data sharing with partners: information governance.	RACE-based review.	This work has been combined with our work on corporate information governance controls and has been reported above.	

Control	Audit review	Audit scope	Comments	Assurance
	Direct payments.	RACE-based review.	This work is almost complete and we are discussing our findings with management as the report is being drafted.	
	Health and safety of lone workers.	RACE-based review – previously limited assurance.	This work will be undertaken in conjunction with assignments on lone workers in each of the directorates, but has not yet begun.	
	Establishment visits (cash management).	Compliance testing – completion of prior year's work.	This work has been reported in draft and is being discussed with management.	
	Hospital discharge model and social care support.	RACE-based review.	This work has not yet begun.	
	ISSIS replacement system - application audit.	RACE-based review.	This review will be undertaken in 2013/14 as the ISSIS replacement system will not be operational in 2012/13.	
	ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system.	Advice and support.	Terms of reference have been agreed but work will not begin until the contract for the new system has been signed. The Internal Audit Service is represented on the project board and work has begun. Input is being coordinated with work on the CYP project board.	
	Management of case referrals: compliance testing.	Compliance testing.	Terms of reference are being discussed with management, and this work is being coordinated with related work on the Care Connect service within the Customer Service Centre.	
	Non residential care system (NRCS): compliance testing.	Compliance testing.	This work is almost complete.	
	Payment and monitoring system (PAMS): compliance testing.	Compliance testing.	This work is almost complete.	
	Resource allocation within the model that allocates individual budgets.	RACE-based review.	This work will take place later in the year.	
	Follow-up: Fair access to care criteria (FACS).	Follow-up review – substantial assurance in 2011/12.	This work will take place later in the year as the previous year's work was finalised only in June 2012. It will be coordinated with the work above on the allocation of individual budgets.	
	Follow-up: Prepayment card pilot	Follow-up review – substantial assurance in 2011/12.	The action plan was only recently finalised with management, so this work will be undertaken later in the year.	
	Preferred provider scheme.	RACE-based review – completion of prior year's work.	This work has been completed and a draft report is being discussed with management.	
	Follow-up: Preferred provider scheme.	Follow-up review.	Until the original work has been completed and an action plan agreed, this follow-up work cannot take place.	
	Follow-up: Vulnerable adults' domicilary services and day centres.	Follow-up review – previously substantial assurance.	This work has been completed and a draft report is being discussed with management.	
Public health				
	Operational review in the shadow year (in two-phases).	RACE-based review.	We are working to understand the services and related contracts and costs that will be transferred to the county council, but this work is likely to be on-going throughout the year.	
Children and Young People (CYP)				
	Support to management.	Support to management.	We have assisted management in their response to an official complaint relating to a child with disabilities.	
	Capital grant funding/ capital accounting.	RACE-based review.	This work is linked with other work on the common financial systems and may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets. It will focus on the arrangements in place to manage the capital grants allocated by the directorate.	
	Data sharing with partners: information governance.	RACE-based review.	This work is now being addressed as a corporate control and has been reported above.	
	Emergency payments to families.	RACE-based re-review – previously limited assurance.	This work has started and early findings are being discussed with management.	
	Financial, operational and safeguarding procedures within children's residential homes.	RACE-based review – completion of prior year's work.	This work is complete and a report is being drafted.	
	Follow-up: Financial, operational and safeguarding procedures within children's residential homes.	Follow-up review .	Since the original work has been subject to some delay, follow-up will not be appropriate during the current year.	
	Grant fund monitoring arrangements.	RACE-based review: new grant monitoring arrangements.	This work is being scoped, but is due to begin in the fourth quarter.	
	Health and safety of lone workers.	RACE-based review.	This work will be undertaken in conjunction with assignments on lone workers in each of the directorates, but has not yet begun.	

Control	Audit review	Audit scope	Comments	Assurance
	ISSIS replacement process: advice and support re controls over configuration, security and implementation of the replacement system.	Advice and support re controls over configuration, security and implementation of replacement system.	The Internal Audit Service is represented on the project board and our input is being coordinated with work on the ACS project board.	
	Management of children's social care referrals.	RACE-based re-review – previously limited assurance.	We will undertake a full re-review of this area later in the year, but we have already completed some interim work focusing on the key issues raised in our report. We selected a sample of social workers who have recently left the council's employment and found that no cases were allocated to them on the social care system.	
	Independent Reviewing Officers	RACE-based review – completion of prior year's work.	This work has been completed and a draft report has been issued to management for discussion.	
	Partnership working with the NHS to support children with mental health needs.	RACE-based review.	Following some changes within the Directorate we are considering the scope of this work.	
	Performance management framework.	RACE-based review.	This work has not yet begun.	
	Provision for children with disabilities (direct payments).	RACE-based review – completion of prior year's work.	Our work is nearly complete and our findings are being discussed with management.	
	Follow-up: Provision for children with disabilities.	Follow-up review – subject to assurance level of original work.	Since the original work has been subject to some delay, follow-up will not be appropriate during the current year.	
	Pupil Referral Units and excluded pupil interventions.	Race-based review.	This work has not yet begun.	
	Residential homes: review of the key risks of short stay breaks including costing.	RACE-based review.	This work has not yet begun.	
	The Safeguarding Children's Board budget.	RACE-based re-review – previously limited assurance.	The terms of reference for this audit have been agreed and work is planned to start soon.	
	School budget formula and pupil forecasting.	RACE-based review.	Terms of reference are being drafted for this work, which is scheduled to take place around the school census dates.	
	Young Persons Learning Agency (YPLA) grant certification.	Compliance testing – grant certification.	This work has not yet begun.	
	Follow-up of the Ofsted action plan and actions arising from the peer review.	Follow-up review of Ofsted's report.	Work on the Directorate's review of case files is on-going.	
	Follow-up: Financial and performance monitoring of schools.	Follow-up review – substantial assurance in 2011/12.	This work has not yet begun.	
	Follow-up: Personnel file documentation.	Follow-up review.	This work will repeat the compliance testing we undertook last year, and will take place later in the year.	
	Follow-up: SureStart children's centres.	Follow-up review – limited assurance in 2011/12.	Work to follow up the arrangements by which the finances of children's centres are monitored has not yet begun.	
Schools and sixth forms				
	Support to LCC management.			
	School reviews.	Whole-school reviews.	Work has been completed as follows:	

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	4	0	4	0	0
Primary school	8	0	8	1	0
Total	12	0	11	1	0

Control	Audit review	Audit scope	Comments	Assurance
	Follow-up of school reviews.	Follow-up review.	Visits to schools to follow up the action plans agreed last year have been arranged.	
	Thematic review - special schools.	Thematic review	This work has not yet begun.	
	Thematic review - payroll services.	Thematic review	This work has not yet begun.	
	Thematic review - income.	Thematic review	An Audit Matters newsletter has been drafted and will be issued to all schools in September.	
	Thematic review - insurance.	Thematic review	This work has been replaced by a review of schools with public sports facilities, which management now considers to be a greater risk.	
	Thematic review – schools with public sports facilities	Thematic review	This work replaces the planned work on schools' insurance but has not yet begun.	

Control	Audit review	Audit scope	Comments	Assurance
	Follow-up of thematic reviews: procurement, unofficial school funds and data protection.	Follow up all 2011/12 thematic reviews.	Newsletters have been issued to all schools at the start of the new school year covering these thematic areas. Follow-up work on data protection has begun.	
	Premises management framework - schools & sixth forms	RACE-based review – completion of prior year's work.	This work has been completed and a draft report is being discussed with management.	
	Follow-up: Premises management framework - schools & This sixth forms	Follow-up review.	Since the original work has been subject to some delay, follow-up will not be appropriate during the current year.	
Environment				
	Support to management.		We have considered the administrative arrangements required for a new grant funding stream, and have provided information about the audit work undertaken in previous years on services that have recently transferred into the Directorate.	
	Budgetary control within the directorate.	RACE-based review.	This work is scheduled for late in the year as the new arrangements for budget-holders under the latest release of the Oracle financial system settle down.	
	Capital programme (of the combined Environment Directorate and former Property Group).	RACE-based review.	This work is linked with other work on the common financial systems and may be affected by the second phase of development of the Oracle financial system, which will introduce changes to controls over the council's fixed assets.	
	Carbon reduction commitment.	Compliance testing.	Audit fieldwork is complete and a report is being drafted.	
	Concessionary travel.	RACE-based review – completion of prior year's work.	This work is complete and a draft report has been issued to management.	
	Concessionary travel.	RACE-based re-review.	This work has not yet begun.	
	Corporate manslaughter - highways responsibilities.	RACE-based re-review – previously limited assurance.	This work has been combined with work on highways asset management, and has begun.	
	Development control s106.	RACE-based re-review – previously limited assurance.	The directorate is still working to amend its procedures in light of our original work, so this work will be deferred until 2013/14.	
	Disposal of scrap metal: matters arising from work during 2011/12.	RACE-based review.	The implications of the work done during 2011/12 are still being addressed and it is not appropriate to undertake additional work at this point. It is likely that this work will be deferred into 2013/14.	
	Flood risk management.	RACE-based review.	The terms of reference for this work are being discussed with management.	
	Health and safety of lone workers.	RACE-based re-review – previously limited assurance.	This work will be undertaken in conjunction with assignments on lone workers in each of the directorates, but has not yet begun.	
	Highways asset management.	RACE-based review.	This work has been combined with work on highways responsibilities in relation to corporate manslaughter, and work has begun.	
	Highways purchasing and use of subcontractors.	RACE-based review – completion of prior year's work.	This work is being discussed with management but has not yet been formally reported.	
	Highways purchasing and use of subcontractors.	RACE-based re-review.	This work has not yet begun.	
	Lancashire Highways Service.	RACE-based review.	The scope of this work is being discussed with management.	
	Local service commissioning arrangements.	RACE-based review.	This project has been removed from the audit plan as this has been reassessed as less of a risk and lower priority than previously thought.	
	PFI waste project - emissions.	RACE-based review.	This project has been replaced in the audit plan with work on the PFI project in the east of the county relating to waste transportation.	
	PFI waste project - Area East waste transportation.	RACE-based review.	After discussions with management, our focus on the PFI waste project has altered and will concentrate on the assumptions around the costs of waste transport. Terms of reference have been drafted for this work.	
	PFI waste project - strategic and budget forecasting.	RACE-based re-review – previously limited assurance.	This work will begin shortly.	
	Project management.	Follow-up review – substantial assurance in 2011/12.	The reports on two specific projects have only recently been considered by the management team and follow-up will not be appropriate this year.	
	Winter highways information management system.	RACE-based re-review.	This work has begun.	
	Follow-up: Closed landfill sites.	Follow-up review.	This work is complete: all agreed actions have been completed.	
	Follow-up: Compliance with relevant legislation and LCC regulations.	Follow-up review.	The Deputy County Secretary and Solicitor presented a report to the Audit Committee in June 2012 addressing assurance over the council's compliance with legislation. This assessment was accepted and requires no further follow-up work. However as noted above work is on-going specifically in relation to the Trading Standards service's compliance with relevant legislation.	

Control	Audit review	Audit scope	Comments	Assurance
	Follow-up: Development control s278.	Follow-up review.	This work has started and nearing completion.	
	Grant audit: Citizen Rail.	Compliance testing – grant certification.	This work in on-going; we are actively involved in supporting the preparation of a claim.	
	Grant audit: CIVINET.	Compliance testing – grant certification.	One audit is complete, but we will also be required to certify the closure of this funding stream.	
	Grant audit: ENVIREO.	Compliance testing – grant certification.	This work is not due yet.	
	Grant audit: Growth Point.	Compliance testing – grant certification.	This work has been completed.	
	Grant audit: Interreg IVB SusStations (NWE).	Compliance testing – grant certification.	This work is on-going.	
Lancashire County Commercial Group				
	Support to management.		We have provided ad hoc advice around the procurement of contracts with taxi operators, and the use of care vouchers by service users.	
	Bus service operators grant.	Compliance testing – grant certification.	The first claim has been certified, but another claim will be made later in the year.	
	Catering income procedures in schools.	RACE-based re-review – previously limited assurance.	This work will start shortly in conjunction with the review of food stocks noted below.	
	Compliance with relevant legislation and LCC regulations: Working Time Directive.	Compliance testing.	Work is planned in relation to compliance with the European Working Time Directive, but has been temporarily postponed at the request of the Director of Human Resource and Payroll Service.	
	Follow-up: Compliance with relevant legislation and LCC regulations.	Follow-up review.	The Deputy County Secretary and Solicitor presented a report to the Audit Committee in June 2012 addressing assurance over the council's compliance with legislation. This assessment was accepted and requires no further follow-up work.	
	Food stock and consumption, ordering, provision, invoicing controls.	RACE-based review.	This work has begun and is on-going.	
	Health and safety of lone workers.	RACE-based re-review – previously limited assurance.	This work will be undertaken in conjunction with assignments on lone workers in each of the directorates, but has not yet begun.	
	Management of residential care medication and care plans.	Compliance testing.	Work carried forward from 2011/12 was finalised in July 2012. At this point, additional work during 2012/13 is unlikely to be helpful and will be removed from the audit plan.	
	Vehicle asset inventory control and usage.	RACE-based re-review – previously limited assurance.	This work has not yet begun.	
Customer service centre				
	Care Connect Service.	RACE-based review.	This work relates closely to work we are also undertaking on case referral management.	
	Emergency Duty Team.	Support to management.	This work has been added to the plan at management's request; we are supporting management in understanding the structure and costs of the Emergency Duty Team in readiness for its transfer into Care Connect.	
	Pension helpdesk.	RACE-based review.	This work has not yet begun.	
Economic development				
	Support to management.			
	Enterprise zones.	RACE-based review.	This work has not yet begun.	
	Growing Places outcomes (the grant element of the Lancashire Enterprise Partnership).	RACE-based review.	This work has not yet begun.	
	Revised Rosebud Fund.	RACE-based review.	This work has not yet begun.	
	Superfast broadband project, involving the assistant chief executive, LCDL's grant specialist team and the economic development team.	RACE-based review.	We have worked with the specialist grants team to consider what procedures are required to support the council's claims for grant funding, and will meet the Director of Economic Development shortly to discuss his assurance needs.	
	Grant audit: Regenerate's Statement of Grant Usage.	Compliance testing – grant certification.	This work is no longer required.	
	Grant audit: Intensive Business Start-up.	Compliance testing – grant certification.	We have completed work begun in 2011/12 to certify this grant funding claim.	
Counter fraud service				
Counter fraud				
	Bribery Act.	RACE-based review.	We are considering the scope of this work, and work has not yet begun.	
	Cash handling.	Compliance testing directed by data analysis.	Work for the current year has not yet begun.	
	School income testing.	Compliance testing directed by data analysis.	Work for the current year has not yet begun.	
	Prevention of bribery - streetworks.	RACE-based review – completion of prior year's work.	Work has been completed and a report is being drafted.	

Control	Audit review	Audit scope	Comments	Assurance
	Follow-up: Prevention of bribery - streetworks.	Follow-up review – subject to assurance level of original work.	Since the original work has been subject to some delay, follow-up will not be appropriate during the current year.	
National Fraud Initiative				
	National Fraud Initiative testing.		We have begun work to prepare data for submission.	
Reactive work				
	Responsive work to support management.	Individual investigations.	We are working to support management with a number of on-going investigations and disciplinary procedures.	
Risk management				
	Preparation of the corporate risk register.		Work on this will be coordinated with the preparation of the audit plan for 2013/14.	
	Other support to management.		This work will take place in the second half of the year.	

Audit and Governance Committee
Meeting to be held on 26 September 2012

Electoral Division affected:
All

Review of Internal Audit
Appendix A refers

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

At the request of the Head of Internal Audit, the Audit Commission have completed a detailed review of the work of internal audit. Under the Accounts and Audit regulations 2011, the Council is required to undertake an annual review of its internal audit. The Audit Commission's input was requested this year to provide some external independent assurance over the effectiveness of the internal audit function. The review was undertaken as an additional service under the Audit Commission's advice and assistance powers covering work outside their Code responsibilities. Their report is attached at Appendix A.

The report concludes that the Council's Internal Audit function meets the standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government and demonstrates many of the characteristics of best practice. A small number of recommendations for improvement have been made for which an action plan has been agreed.

Recommendation

The Committee is asked to

- take note of the reports and the completed action plan.

Background and Advice

The Audit Commission's report following their review of Internal Audit is attached at Appendix A.

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

N/A

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel

None
Reason for inclusion in Part II, if appropriate

Appendix A

Review of internal audit

Lancashire County Council

July 2012

Contents

Key messages

This report summarises the findings from our assessment of how the Council's Internal Audit function meets the CIPFA standards for Internal Audit and CIPFA best practice.

Overall conclusion

1 We have concluded that the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.

2 Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.

Recommendations

3 We have identified a small number of areas where there is scope for improvement and these are summarised in table 2. Our recommendations are made within the context of the good service provided by Internal Audit and have been prioritised accordingly within the action plan attached to this report.

4 The main area for improvement relates to progress reporting to the Audit Committee. Whilst the current progress reports are informative and useful, they need to more clearly sign-post at the beginning the key issues to aid the Audit Committee in undertaking its role. They would also benefit from greater consistency in being clear about which audit areas have been given limited assurance, and for those areas, why a limited assurance rating has been given, and the consequences and resultant risks for the Council taking into account other relevant controls and the wider context of the services affected.

Detailed findings

We have concluded that the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government. Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice.

Background

5 Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources[i].

6 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly. The Accounts and Audit Regulations 2011 require the Council to make provision for internal audit in accordance with proper practice, which is generally accepted to constitute the CIPFA Code of Practice for Internal Audit (2006).

Scope and objectives

7 At the request of the Council we have undertaken a detailed review to assess how the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government. Our review has also considered whether the Internal Audit function demonstrates the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The excellent internal auditor.

8 The objective of this work is to provide the Council with an independent view on the extent to which the Internal Audit function meets the CIPFA standards and best practice. Our conclusions are based on evidence provided by the Head of Internal Audit in her detailed self assessment, review of documentary evidence, discussions with a number of Internal Audit staff, and review of a sample of Internal Audit assignment files.

i CIPFA definition of Internal Audit, Code of Practice for Internal Audit in Local Government (2006)

CIPFA standards for Internal Audit

9 We have concluded that the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government. Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice. Our findings in respect of each of the eleven standards for Internal Audit are summarised in the following table.

Table 1: **Compliance with CIPFA standards for Internal Audit**

CIPFA Standard for Internal Audit	Conclusions
1) Scope of Internal Audit	Internal Audit has terms of reference which cover the CIPFA minimum requirements and makes clear reference to Management's responsibilities and the role of Internal Audit. The Terms of Reference have been periodically reviewed and updated as deemed necessary by the Head of Internal Audit. The planning process is clearly risk based and focuses on issues arising from Service, Director and Internal Audit risk assessments. Internal Audit involvement in other work is primarily on a consultative basis as a 'critical friend' for the implementation of new processes and systems.
2) Independence	Terms of reference and the day to day functioning of Internal Audit demonstrate independence from the services subject to audit. Internal Audit involvement in system or process implementation is limited to a consultative or review role. Internal Audit has no operational responsibilities with the exception of risk management and investigations. Whilst these roles go beyond the work needed for Internal Audit to meet its assurance responsibilities, they do not have any implications for the independence of Internal Audit. The Head of Internal Audit has appropriate status and direct access to members and senior officers. The budget for Internal Audit is managed directly by the Head of Internal Audit who remains satisfied that the service has sufficient resources to undertake an adequate work programme at present.
3) Ethics for Internal Auditors	All staff are required to make an annual declaration of interest, including nil returns, to demonstrate compliance with ethical standards. The annual request for declarations includes guidance and reminders about professional responsibilities. The declaration process could be improved if staff were required to provide positive declarations in respect of adherence to professional standards.

CIPFA Standard for Internal Audit	Conclusions
	Working to client portfolios enables staff to maintain competence in the service areas subject to audit, and training and development opportunities are provided to enable staff to update their knowledge and understanding of service areas as required. Work on 'thematic' or 'cross-cutting' reviews allows staff to gain exposure to other service areas outside of their normal client portfolio.
4) Audit Committees	The Council has an Audit Committee which is politically balanced and independent of executive and scrutiny functions. Its terms of reference are included within the Council's constitution. The Audit Committee monitors progress against the Internal Audit Plan and the results of Internal Audit work are reported to the Audit Committee in quarterly progress reports and the annual Head of Internal Audit report. Internal Audit Progress reports include information on work completed against the plan, and a narrative summary of matters arising in the last quarter. We have made some recommendations in relation to how these reports could be improved to better support the Audit Committee in undertaking its role. (See table 2)
5) Relationships	The Terms of Reference and Strategy, annual planning process and Terms of Reference for each audit assignment ensure the objectives and responsibilities of Internal Audit and Management are clearly defined and understood. Relationships with Management are established and maintained via the annual planning process and regular liaison meetings with senior client staff in each directorate. Discussions with staff indicate constructive and professional relationships with clients, and this is supported by the results of Client Satisfaction Questionnaires completed in 2010, 2011 and the recently available results from the 2012 survey. The Terms of Reference define relationships with elected members and specifically the Audit Committee. The Head of Internal Audit attends all meetings of the Audit Committee and holds a briefing session with members in advance of each Audit Committee meeting. The progress report provided to each Audit Committee includes summaries of matters arising from Internal Audit work completed.
6) Staffing, training and continuing professional development	The Internal Audit team has a defined establishment and structure. Whilst the team currently has a number of vacancies, both the Head of Internal Audit and Principal Auditors remain satisfied that the team has sufficient resources to deliver an adequate wok programme at present. In recent years the size of the Internal Audit function has been reduced as part of the council's wider actions to reduce costs. New ways of working have been developed to provide the necessary levels of assurance across the Council accommodating this reduction whilst also responding to the changing and increasing risks arising from the significant structural changes which have been made across the Council.

CIPFA Standard for Internal Audit	Conclusions
	Further changes across the Council and within the Internal Audit team are planned in the future. It will be important that the impact of further change is clearly considered in the context of: ■ the impact on risks and controls across the council; ■ the level of assurance needed from internal audit work; ■ different options for achieving the required level of assurance; and ■ the adequacy of internal audit resources to provide that level of assurance. These are issues which Internal Audit, the Treasurer and the wider Council management team will be likely to consider in the normal course of events. It will be important that the Audit Committee keep this under review. The Head of Internal Audit is a qualified Chartered Accountant, with previous audit experience from the private sector, and is also a member of CIPFA's Technical Audit Panel. Job descriptions are in place for each role in the audit team, including roles and responsibilities and a person specification, and a core competency framework exists for the team as a whole. These job descriptions and the competency framework are used as the basis for annual performance and development reviews, and six monthly interim reviews for all staff. Training and development needs are identified through the performance and development review process. The Head of Internal Audit encourages staff to attend events hosted by CIPFA and other training or seminars where these are relevant to an individual's specific client service areas. Various recent examples were identified through discussions with Internal Audit staff who have found these useful.
7) Audit strategy and planning	The Internal Audit function has an audit strategy which is combined with the terms of reference. The strategy has been periodically reviewed and updated. Audit planning is based on a comprehensive risk assessment process and consultation with services and other relevant stakeholders. The Audit plan is prepared on an annual basis and a summary version is presented to the Audit Committee for approval. The plan is based on a prioritisation process undertaken by the Principal Auditors and Head of Internal Audit. Changes made during the year to the plan are explained and highlighted to the Audit Committee.

CIPFA Standard for Internal Audit	Conclusions
	The annual internal audit plan presented to the Audit Committee includes a good narrative summary explaining how the plan has been developed and the key factors affecting the current year's plan. We have recommended a change to the presentation of the plan to the Audit Committee which we believe will help the Audit Committee to better understand the resultant schedule of work and the prioritisation which has led to the final plan (See table 2).
8) Undertaking audit work	Internal Audit assignments are planned in advance of fieldwork being undertaken, with terms of reference agreed with the relevant service. The Internal Audit approach is risk based, using the Risk and Control Evaluation (RACE) framework as the core basis for audit testing, and terms of reference identify the risks that the work is intended to address. Work done is clearly identified on testing schedules with supporting documentation and referencing sufficient to enable re-performance if necessary. Findings and conclusion are mapped to recommendations in the draft report enabling the reviewer to see how the work done supports the conclusions and recommendations.
9) Due professional care	The Head of Internal Audit reminds staff of their professional responsibilities as part of the annual collation of declarations of interest. The annual request for declarations includes guidance and reminders about professional responsibilities, although the declaration process could be improved if staff were required to provide positive declarations in respect of adherence to professional standards. The audit manual quality review checklist specifies the monitoring and review requirements for each audit assignment. A review of a sample of files has confirmed that this checklist is used and there is clear evidence of appropriate and timely review of work done in all cases.
10) Reporting	The Head of Internal Audit provides progress reports for each Audit Committee. She also prepares an Annual Report to those charged with governance which is reported to the June Audit Committee and is timed to support the Annual Governance Statement. The annual report includes an opinion on the overall adequacy of the control environment and summarises all of the work undertaken and matters arising during the course of the year. Internal Audit progress reports include a summary of the assurance level for each piece of Internal Audit work completed to date, and a narrative summary of matters arising in the last quarter. As previously referred to, we have made some recommendations to improve the presentation of these reports. (See table 2).

CIPFA Standard for Internal Audit	Conclusions
	All detailed Internal Audit reports need to meet the minimum requirements set out in the Internal Audit Manual but the format of Internal Audit reporting is not fixed to allow reports to be tailored to the nature of the audit assignment and the client service. The team has continued to review and refine the detailed reports to ensure that only key messages are summarised in the reports, making reports shorter and more accessible to the reader. We have made a recommendation to ensure it is clear which officer has overall responsibility for ensuring the delivery of agreed actions within the internal audit reports. (See table 2).
11) Performance, quality and effectiveness	An Audit Manual is in place which includes guidance and templates for the completion of day to day work. The Risk and Control Evaluation (RACE) framework provides a clear structure and basis for all audit assignments. The audit methodology includes a detailed quality checklist for the completion and review of audit assignments. The annual audit planning process includes a resource plan which is determined by the three Principal Auditors in consultation with the Head of Internal Audit. The resource allocation is based on skills and experience but does also allow opportunity for staff to gain exposure to new areas of work. Performance measures for the service are agreed between the Head of Internal Audit and the County Treasurer, monitored during the year and reported in the Annual report. Arrangements are in place to obtain feedback and assess the effectiveness of individual staff members via assignment review forms, and to assess the service as a whole via client satisfaction questionnaires.

Areas for improvement

10 We have concluded that the Council's Internal Audit function meets each of the eleven standards for Internal Audit and the function demonstrates many of the characteristics of best practice. This review has identified a small number of areas where there is scope for improvement and these are summarised in the following table.

Table 2: **Areas for improvement**

Findings	Recommendations for improvement
Internal Audit progress reports to the Audit Committee include a summary of the assurance level for each piece of Internal Audit work completed to date, and a narrative summary of matters arising in the last quarter. Given the nature and level of work completed each quarter the progress reports are quite lengthy covering a wide range of services, systems and cross cutting themes. They give a useful picture of the controls operating across the breadth of the Council's activities. In this context a brief summary at the outset setting out the key issues arising would be helpful to focus the committee's attention. The narrative summaries for each piece of work are not consistently clear about what assurance level has been given or why a report is limited assurance. Where limited assurance is given, the reports are not consistently clear about the specific risks arising taking into account other Council wide controls and the wider context of the service.	The Internal Audit progress reporting should clearly sign post which audit areas have been given limited assurance, and for those areas, ensure there is always a clear explanation of why a limited assurance rating has been given and what the consequences and resultant risks are for the Council. This would aid the Audit Committee in undertaking its role, making it easier to: ■ focus on significant matters arising from Internal Audit work; and ■ make judgements about whether formal action by the Audit Committee is necessary to ensure control weaknesses are addressed appropriately.
We reviewed a sample of audit files and detailed audit reports as part of this review. This highlighted: ■ a range of reporting styles but with a move towards reports where only key messages are summarised in the reports, making reports shorter and more accessible to the reader; and ■ whilst the action plans included in the detailed reports identify who is responsible for the delivery of agreed actions, the report doesn't identify the client sponsor.	Internal Audit reports should clearly name the client sponsor for the service area subject to audit so that overall responsibility for action is clear. This would aid the Audit Committee in fulfilling its role should it, for example, wish to speak to the service about the issues raised in an Internal Audit report.

Findings	Recommendations for improvement
The annual internal audit plan includes each individual audit assignment identified, the resources required, who is planned to complete the work and the type of work to be undertaken. The plan is based on a prioritisation process undertaken by the Principal Auditors and Head of Internal Audit. The resultant plan presented to the Audit Committee includes a good narrative summary explaining how the plan has been developed and the key factors affecting the current year's plan. It can be difficult to link the key factors affecting the development of the plan to the detailed plan as presented or to understand the basis for the decisions made to include specific items in the plan. In our view, the inclusion of a brief explanation of why each item has been included within the plan would make this clearer. This should help the Audit Committee to consider the relative importance of individual assignments within the plan. This would be particularly important if other needs are identified during the year or resourcing issues arise which would require a re-prioritisation of the plan.	The annual Internal Audit plan presented to the Audit Committee should briefly explain why each audit assignment has been included. For example identifying those assignments that relate to fundamental financial systems which are reviewed every year, or assignments that have been included on a cyclical basis or to address a current risk.
All staff are required to make an annual declaration of interests, including nil returns, to demonstrate compliance with ethical standards. The annual request for declarations includes guidance and reminders about professional responsibilities, but there is no requirement for a positive declaration regarding understanding and compliance with professional standards.	The annual declarations process could be improved by asking staff to provide positive assurances that they understand and seek to comply with their professional responsibilities.

Appendix 1 – Action plan

Recommendations

Progress Reporting

Internal Audit progress reporting should clearly sign post which audit areas have been given limited assurance, and for those areas, ensure there is always a clear explanation of why a limited assurance rating has been given and what the consequences and resultant risks are for the Council.

Responsibility	Head of internal audit and principal auditors
Priority	Most important
Date	Immediate

Detailed Reports

Internal Audit reports should clearly name the client sponsor for the service area subject to audit so that overall responsibility for action is clear

Responsibility	Head of internal audit and principal auditors
Priority	Medium
Date	Immediate

Audit assignment priorities

The annual Internal Audit plan presented to the Audit Committee should briefly explain why each audit assignment has been included. For example identifying those assignments that relate to fundamental financial systems which are reviewed every year, or assignments that have been included on a cyclical basis or to address a current risk.

Responsibility	Head of internal audit
Priority	Medium
Date	March 2013

Recommendations

Annual Declarations

The annual declarations process could be improved by asking staff to provide positive assurances that they understand and seek to comply with their professional responsibilities.

Responsibility	Head of Internal audit
Priority	Least important
Date	March 2013

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0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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September 2012

Audit and Governance Committee
Meeting to be held on 26 September 2012

Electoral Division affected: All

Annual Governance Reports 2011-12
Appendices A to C refer

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

The Audit Commission is required to issue an annual governance report which summarises the conclusions of its audit work prior to concluding its work. The report covers the findings of its work in relation to the audit of the annual accounts and its review of the council's value for money arrangements. The governance reports for the year ended 31 March 2012 for Lancashire County Council and Lancashire Pension Fund are attached at Appendices A and B.

Recommendation

The Committee is asked to

- take note of the adjustments to the financial statements which are set out in the reports;
- approve the letter of representation provided alongside this report, (Appendix C refers), on behalf of the Council before the auditor issues their opinion and conclusion; and
- take note of the findings in relation to the value for money conclusion.

Background and Advice

Attached at Appendix 'A' is the Audit Commission's annual governance report for Lancashire County Council for the 2011/12 audit. A separate report is included at Appendix B following the audit of the Pension Fund financial statements. The reports have been produced in accordance with the Audit Commission's statutory Code of Audit Practice for Local Government bodies.

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

N/A

Lancashire County Council

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel

None
Reason for inclusion in Part II, if appropriate

Appendix A

Annual governance report

Lancashire County Council

Audit 2011/12

audit commission

Contents

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

My audit of the Council's financial statements is substantially complete and as at 10 September I expect to issue an unqualified audit opinion by 30 September 2012.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and mainly relate to disclosure issues.

This has been another challenging year for the finance team with the introduction of a new ledger and the new partnership arrangement with One Connect Limited, (OCL), supporting the delivery of significant financial savings in-year and ongoing re-structuring of the team. Within this context, the preparation of materially correct statements, which included bringing onto the balance sheet the new waste PFI assets and heritage assets for the first time, is a significant achievement.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Council has demonstrated a strong financial performance during 2011/12, exceeding extremely challenging delivery targets for the year, whilst showing an overall improvement in performance across its services. It is well placed to deal with the financial and operational challenges ahead. Good progress has been made in strengthening governance arrangements to support treasury management, and in monitoring and managing both the contract with OCL and the financial and operational challenges presented by the waste PFI contract.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Authority for a fee of £9,400. The Audit Commission completed a detailed review of Internal Audit against the CIPFA code and good practice.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (page 5); and
- approve the letter of representation provided alongside this report, on behalf of the Council and Pension Fund before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

There are no uncorrected errors.

Corrected errors

A number of amendments have been agreed to improve the accuracy, clarity and internal consistency of the disclosure notes within the financial statements. This has included adding disclosures about the nature of the Council's interests in the Lancashire Economic Partnership and extending the disclosures about its relationship with OCL.

We also identified an error within the financial statements relating to the 2010/11 comparative figures shown on the face of the balance sheet and the movement in reserves statement. The total value of heritage assets of £28.4m had been included in the Property Plant and Equipment balance as well as being shown separately. This error impacted only on the 2010/11 comparatives and had no impact on the final balances shown at 31/3/12 which were correctly stated.

All errors identified during the course of the audit have been amended for. None of the amendments have affected the reported surplus or general county fund balance.

Significant risks and my findings

I reported to you in my January Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
Waste PFI scheme commencement The Council's waste PFI scheme became operational during 2011/12 and the Council's accounts for 2011/12 now reflect the asset and corresponding liability on the balance sheet. This requires a professional assessment of the unitary payment to the contractor between its capital and revenue elements to ensure it is correctly recognised and accounted for within the balance sheet. The nature of the contract and the related technical guidance is complex, increasing the risk of a material misstatement occurring. The Council has used external consultants specialising in PFI schemes to support it in this respect.	I have reviewed the financial model used for the PFI and have tested the detail to the contract, payments made under the contract and the valuer's report. I have reviewed assumptions and estimates used within the model for reasonableness. I have agreed the figures appearing in the Council's accounts back to the financial model. My testing has not identified any issues to bring to your attention.

Risk	Finding
Implementation of new payroll system The Council implemented a new payroll system during 2011/12. This covers a large proportion of the Council's expenditure. In addition to the risks of material error linked to the implementation of any new major financial system, problems occurred resulting in the misclassification of payroll expenditure within the Council's ledger.	I evaluated the design and implementation of controls over the new payroll system including the actions and controls implemented to deal with the misclassification issue. I completed sample testing of individual payroll costs to ensure they related to staff employed by the Council, were properly calculated and correctly accounted for. I placed reliance on testing completed by Internal audit in this respect and completed additional testing to achieve a large enough sample to satisfy my requirements. I completed a predictive analytical review based on information from previous years and known changes to provide me with assurance that the full amount of payroll costs recorded within the council's ledger are materially correct. I am satisfied that the misclassification issues which occurred initially have been resolved and that the initial errors have been appropriately corrected. My testing has not identified any issues to bring to your attention.
Production of group accounts The Council has not produced group accounts since 2005/06 on the basis that whilst there are a number of organisations which would form part of its group, group accounts were judged not to be material to the Council's financial statements. Following the creation of OCL in 2011/12, the Council has now determined that group accounts will need to be prepared for 2011/12. This will require close liaison with the relevant entities within the group, adjustments to take into account different accounting policies which may exist between them, different methods of consolidation depending on the nature of the Council's relationships with the entities. Particularly in the first year, there is a risk of material misstatement arising.	In the event, the Council decided not to produce group accounts. The method of consolidation for OCL, requires only the net position to be included within the Council's group accounts. OCL's net financial position for 2011/12 was a net nil position and therefore preparing group accounts would not have resulted in a materially different position than that shown within the council's main accounts. The Council's accounts do include relevant disclosures about its relationship with and transactions with OCL within note 64. I completed a review of the Council's consideration of its group entities and their materiality to the Council. I am satisfied that group accounts are not required for 2011/12.

Risk	Finding
Valuation of property, plant and equipment (PPE) The Authority is required to value PPE at fair value (with some exceptions). At 31/3/2012 these were valued at £2,647m. Valuation of these assets is undertaken by qualified valuers on the instructions of the Council. The nature of such valuations involves a high degree of subjectivity bringing with it an inherent risk of mis-statements of the valuations.	I have evaluated the instructions given to the Council's valuer against the CIPFA guidance and the valuers' qualifications and independence. I have tested a sample of assets to satisfy myself that the valuation and depreciation of property, plant and equipment accounted for by the Council and disclosed in the financial statements was in line with the requirements of IAS 16 and the Code. My testing has not identified any issues to bring to your attention.
Pension asset and liability estimates The Council has a net pensions liability at 31 March 2012 of £939m. This liability represents the extent to which the present value of liabilities exceeds the fair value of assets. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercers, an independent firm of actuaries, using the latest full valuation of the scheme as at 31 March 2010 adjusted for current information about membership numbers, current pay levels etc. The resultant estimated figures involve a high degree of subjectivity and small changes in the assumptions used can have a material impact on the financial	I reviewed and tested controls over the accuracy and completeness of information provided by the pension fund to Mercers. I have evaluated the work of Mercers using an expert commissioned by the Audit Commission for this purpose. I have tested the entries within the Council's financial statements and disclosure notes to ensure they agree to the information provided by Mercers. My testing has not identified any issues to bring to your attention.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in control.

I reported to you last year a number of areas for improvement within the ICT control environment of Lancashire County Council. Whilst I did not consider them to be likely to result in a risk of material mis-statement within the Council's accounts, I considered them to be significant enough to bring to your attention. Some progress has been made to improve the controls in the areas raised but there remain issues to be addressed as set out in table 2.

Table 2: **ICT control of access issues**

ICT control issues reported 2010/11	Progress in 2011/12	Planned actions
Access to live financial systems by IT application support staff is more widely available than usual with some staff having permanent access to live systems application facilities	Full access privileges are now better controlled. OneConnect officers have reviewed all full access rights and consider that current access rights are required.	No further action needed other than ongoing application of controls.
Password controls for access to the network are weaker than usually seen at similar authorities	No change made during 2011/12.	A project has been approved to move to a minimum of 8 character complex passwords for network access.
The prompt removal of leavers' access rights to the network and to individual applications is not consistent.	No change made during 2011/12. Work carried out by Internal Audit showed that control over leavers' access is still weak.	Action is planned to introduce an improved identity management system which will provide a single identifier for all staff to be used for ICT and HR/payroll purposes. This will enable automatic notification of leavers and speedy removal of access rights.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 10 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 26 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Audit Commission. In my January 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.
Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
Risks identified for 2011/12: The Council has responded well to the current financial climate and is delivering successfully on its financial plans. However, bridging future funding gaps remained a challenge as the Council will also have to respond to the uncertainties over future funding and expenditure demands. To reduce net financing costs whilst also reducing financial risk, the Council has moved away from a relatively simple and traditional approach to Treasury Management. The new strategy is more complex and requires an ability to monitor and react more quickly to market developments than in previous years. We made recommendations to officers to improve the governance of this more complex environment.

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.

Findings

As reported last year, the Council faced a significant financial challenge following the government's local government spending review. The Councils response to this had been impressive, with a three-year budget agreed in February 2011 for 2011/12 to 2013/14. This included plans to save £179m over that period. The development of this budget followed significant work which had already begun some years previously to achieve a more cost effective Council whilst still providing the desired level of services. This involved making some relatively radical changes to service delivery, especially around back office services, which required time to develop and implement. The Council's financial planning has continued to progress since then to both deliver on existing plans whilst also responding to, and planning for, new financial risks. At the time of agreeing the 2011/12 budget detailed plans were in place to achieve the full savings needed over the three years subject to a shortfall of £7.5m. Additionally there were also, (and still are), a variety of unknowns and cost pressures which could impact on the deliverability of the budget.

During the last 12 months the Council has:

- achieved efficiency savings ahead of those planned (£10m);
- achieved additional efficiency savings which have now been built into future years budgets to off-set additional cost pressures (£10m); and
- agreed detailed plans for the £7.4m savings needed to balance the budget for 2013/14.

This strong performance, taken together with exceptional one-off gains arising from management of the Council's bond portfolio, has enabled the Council to agree a programme of one-off investments in specific areas to help address the Council's priorities around economic regeneration, employment, respite care and residential and day care facilities. A total of £59m has been moved into a new strategic investment reserve at year-end to fund these plans which will be delivered over the next five years.

The Council still faces significant cost and funding pressures going forwards. The Council is fully aware of these and is taking action to reduce the impact where possible. In addition the Council is continuing to implement a range of initiatives aimed at further reducing costs and improving efficiency in future years. The general fund reserve has reduced slightly from £41.9m at 1/4/11 to £36.5m at 31/3/12, but the Council considers this to be sufficient as a contingency to off-set future spending and funding pressures in the short term.

The Council has continued to implement its strategy to reduce the risk exposure of its borrowings and lendings. In doing so it has also achieved significant financial benefits for the Council. This has included the achievement of exceptional one-off gains of £55.7m arising from management of the council's bond portfolio. The governance arrangements to support the more complex treasury management function have been strengthened over the last 12 months. In particular:

- the updated Treasury Management policy framework adopted by the Council in February 2012 is much clearer about its strategy in respect of reducing risks and within this environment, its policy around borrowing and investments;
- the Council is better able to explain and justify its borrowing needs and borrowing is more closely controlled against much tighter limits;

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.

- the monthly Treasury Management meetings with the County Treasurer have been formalised and significant decisions are more clearly documented, explained and supported within the context of the agreed strategy;
- reporting to members is clearer around the impact of general market conditions on the Council's own portfolio and strategy and includes clearer reporting on the impact of decisions on the levels of investment and borrowing and against limits and performance targets;
- additional capacity within the Treasury Management team has been obtained through recent recruitment exercises; and
- members have received additional training in investments and there is a programme of future training covering, for example borrowing and more complex financial instruments.

Work is still ongoing to further strengthen the governance arrangements including:

- acquisition of a new Treasury Management IT system which is expected to improve the production of management information especially around the risk profile of the portfolios;
- updating of treasury management practice notes; and
- staff continue to pursue programmes of professional treasury management training although the ability to do so has been restricted due to workload/capacity issues.

Criteria. Securing economy efficiency and effectiveness – The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risks identified for 2011/12:

As part of the Council's approach to delivering financial savings whilst improving services it entered into a strategic partnership arrangement with British Telecom (BT). The partnership involved the creation of One Connect Limited (OCL) to deliver a range of core back office services to the County Council. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (10 years) are over £100 million. Effective and close monitoring of the delivery of agreed performance standards and financial targets is crucial.

Waste management has been identified as a financial pressure and the Council was looking at a range of options to address this risk. Due to increases in waste management costs, the Council's savings requirement has increased by £8m.

Criteria. Securing economy efficiency and effectiveness – The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Findings:

As well as delivering significant financial savings the Council is continuing to perform well against its performance targets. Over 80% of targets have been met in the year, and where targets have not been met, significant improvements have still been achieved. Significant successes during the year have included a significant reduction in serious road casualties of 226 (25.9%) and increasing the percentage of pupils achieving 5 or more A*-C grades at GCSE level by 4% (56% to 60.1%).

The arrangement with OCL is delivering on its high level objectives. In overall terms, the cost to the council of services provided has reduced as expected. The annual contract figure agreed of £37.3m compares with the cost of seconded staff of £41.5m which has been billed to OCL. A further £11.9m has been paid for agreed service developments such as the implementation of the new HR/payroll system and ledger system. An additional amount of £0.5m has been paid for work requested by Lancashire County Council which is recognised to be outside the agreed contract. Procurement savings achieved through contract negotiations by OCL on the Council's behalf are reported by OCL to be £3.2m.

OCL are largely meeting agreed service targets and two significant service developments have been delivered. As with any significant change, there have been issues in implementation. The contract is being managed robustly and the two parties are working closely together at a management team level to address issues as they arise. Baseline performance levels and targets have been agreed during the year and are now reported against on a monthly basis together with reporting of how any specific issues under each service are being dealt with. Given the significant level of agreed improvement achievements and high level of savings to be delivered by OCL it will be important to ensure a continued close level of management of this arrangement.

The environment team have identified and agreed efficiency savings which are sufficient to offset the current cost pressures created by the waste management contract. During 2011/12 it became increasingly apparent that the waste contract was not delivering as was originally envisaged. Since December 2011 the Council has been working closely with the contractor, Global Renewables Lancashire Ltd, (GRLL), to identify and implement changes which will improve the value for money achieved by the contract and reduce the ongoing financial risks to the Council. A memorandum of understanding and change to the contract have recently been agreed which are intended to incentivise diversion from landfill, thereby reducing the financial pressures on the landfill budget. There remain significant challenges in delivery of the expected performance and financial impact of the contract going forwards. The Council together with GRLL, have achieved a more stable footing to proceed from and are continuing to explore ways of reducing the financial risks of the contract.

Fees

I reported my planned audit fee in the January 2012 Audit Plan.

I will complete the audit within the planned fee.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Lancashire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the County Treasurer 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Lancashire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the 'Pension fund operations and membership' section to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the 'Pension fund operations and membership section' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Lancashire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of accounts of Lancashire County Council and Lancashire County Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission

[*Signature*]

Karen Murray
District Auditor

Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

September 2012

Appendix 2 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

www.audit-commission.gov.uk

September 2012

Appendix B

Annual governance report

Lancashire County Pension Fund

Audit 2011/12

audit commission

Contents

Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 10 September 2012, my audit is substantially complete and I expect to issue an unqualified audit opinion and issue audit reports on the financial statements of the Pension Fund. The reports will cover:

- the Pension Fund's financial statements as presented in the Lancashire Pension Fund Annual Report; and
- the Pension Fund's financial statements as presented in the administering authority's accounts for Lancashire County Council.

Internal Control Environment

The Fund has an adequate control environment in place overall. Officers have dealt effectively with significant events during the year without detriment to the control environment, including:

- implementation of new pensions payroll arrangements;
- the change in custodian arrangements including ensuring the accurate and complete transfer of assets;
- management of the new bank account arrangements;
- the procurement of new equity fund managers for 2012/13; and
- the purchase of new style infrastructure investments.

However, I report to you the need to address the potential misclassification of accounting entries between the County Council and the Pension Fund. This has continued despite the introduction of a separate bank account for the pension fund. Management action has been agreed to address this issue during 2012/13.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
A member of the audit team is related to an officer within the pension administration section (Your Pension Service).	Our member of staff does not undertake, or have responsibility for the review of, any of our work relating to the work of the Pensions Service.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (page 5 and appendix 2);
- take note of the issues raised at page 7 and 8; and
- approve the letter of representation, provided alongside this report, on behalf of the Council and Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Uncorrected errors

There are no uncorrected errors within the financial statements of the Fund.

Corrected errors

The audit work undertaken has identified the following item where the primary financial statements have been corrected.

- The investment assets balance and investments liabilities balance had been understated by £0.7m (as detailed at appendix 2).

In addition, a small number of amendments have been made to the accompanying disclosure notes to ensure disclosure requirements have been fully met and to improve accuracy.

None of the amendments have affected the underlying financial position of the Pension Fund.

Specific risks and my findings

I reported to you in my 23 January 2012 Audit Plan the significant risks and areas where additional audit work was required, that I identified and considered relevant to my audit of your financial statements. In the table below I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Risk	Finding
Valuation of Private Equity and Infrastructure Investments The Fund has material investments of £287.5m at 31/3/12 placed in private equity funds and infrastructure assets. These assets are not traded on open markets, and the valuations are therefore subject to significant estimation.	I have evaluated and tested the controls operated by the pension fund and custodian in relation to the valuation of these assets. I have completed additional testing of a sample of valuations back to audited fund values taking into account subsequent transactions. I have not identified any issues to bring to your attention.
Implementation of New Pensions Payroll System A new pension payroll system was implemented during 2011, resulting in the payroll being run directly from the pension administration system. The ledger file development for the new system was not completed until February 2012 resulting in a significant delay in postings to the ledger for the new pensions payroll. The implementation of any new major financial system brings with it inherent risks of material misstatement and this is increased in this case due to the delay in being able to post entries to the ledger.	I have evaluated and tested the controls operating over the new payroll system including those to ensure an accurate and complete transfer of the figures into the ledger. I evaluated and relied upon internal audit testing of a sample of pension payments to ensure they were made to bona-fide pensioners, calculated and accounted for correctly. I completed a predictive analytical review based on previous years figures and known changes to obtain assurance about the overall completeness of the pension payments. The issues caused by the delay in being able to post amounts to the ledger have been resolved. I have not identified any issues to bring to your attention.
New Custodian The Fund entered into a new custodian contract that commenced in August 2011. This involved a change in provider of custodian services, and a resultant transfer of assets between custodians.	I have evaluated and tested the controls operated by the pension fund to ensure a complete and accurate transfer of assets between the Custodians. I have also reviewed the controls assurance report provided by the new custodian to ensure that their controls provide me with the expected level of assurance over the accuracy of the figures included within the pension fund financial statements. I have not identified any issues to bring to your attention. I have also tested the values provided by the custodian back to information from the various fund managers and pension fund records.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. However, I have identified the following control weakness which I wish to bring to your attention.

In previous years the transactions of the pension fund have been made through the Council's bank account because a separate bank account was not maintained for the pension fund. This gave rise to a potential risk of misallocation of monies between the County Council and the Pension fund. Each year detailed work has been completed to ensure that the cash position between the County Council and the Pension Fund was correctly stated. Each year an adjustment was made between the pension fund and the Council to achieve a balanced position for the pension fund. This 'balancing adjustment' was thought to be necessary because of timing differences between the recording of transactions and the physical movement of cash. However, the amount was never fully reconciled.

From 30 March 2011, a separate pension fund bank account has been in operation. As a result, this issue was expected to be resolved.

However, it was considered impractical to move straight to a position where all transactions were made directly via the pension fund bank account. Instead daily transfers of cash were made between the Council's and pension fund's bank accounts on the basis of recorded transactions. In order to close the pension fund accounts a balancing adjustment of £1.2m between the Council and Pension Fund was required this year.

From the 1 April 2012, following the implementation of the new ledger system and a separate ledger for the pension fund, the bank account has operated fully. All transactions now go directly into the pension fund bank account. Finance staff plan to investigate the adjustment of £1.2m during 2012/13 with the aim of clearing this balance from the ledger by 31 March 2013. They also intend to ensure such un-reconciled balances do not exist going forwards. The new arrangements from 1 April 2012 should facilitate this with a monthly closedown possible and therefore earlier identification and resolution of any imbalance, should it occur.

I have performed detailed testing around this issue. I am satisfied that although there is potential for a non-material misclassification error between the two sets of accounts, there is unlikely to be a material error affecting either Lancashire Pension Fund or Lancashire County Council.

Recommendation

R1 Priority should be given to reconciling the pension fund balance on a monthly basis during 2012/13 with the aim of investigating any unexplained differences as quickly as possible. This work should include ensuring that the balance brought forwards from 2011/12 of £1.2m is investigated and addressed appropriately.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Changes to IAS 24 for 2011/12 require the inclusion of an extended disclosure note about the compensation of key management personnel. The CIPFA code for 2011/12 includes a specific dispensation from this requirement, instead following the regulatory disclosure requirements around remuneration of members and staff. The code is silent on whether this dispensation applies to the accounts of the pension fund. No disclosure has been made within the pension fund accounts of the compensation of key management personnel, but will be kept under review by the County Treasurer until the guidance is clarified.

Pension Fund Annual Report

I have completed my review of the pension fund's draft report and the financial statements included within it. The annual report will be updated to reflect the agreed amendments on the Pension Fund accounts. I have also identified an inconsistency within the narrative within the report which refers to positive cash flows of £86.4m against the £94.3m presented in the accounts. Following amendment of the Annual report I expect to provide an unqualified report on the financial statements included in the Annual Report by 26 September 2012.

Fees

I reported my planned audit fee in the 23 January 2012 Audit Plan.

I will complete the audit within the planned fee.

Appendix 1 – Draft independent auditor's reports

(i) DRAFT INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL STATEMENTS OF THE COUNCIL

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL – PENSION FUND ELEMENT ONLY

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the 'pensions fund operation and membership' section to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the 'pensions fund operation and membership section' is consistent with the financial statements.

[*Signature*]

Karen Murray
District Auditor

[*Address*]

[*Date*]

(ii) DRAFT INDEPENDENT AUDITOR'S REPORT FOR THE PENSION FUND ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

[*Signature*]

Karen Murray
District Auditor

[*Address*]

[Date]

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £m	Cr £m	Dr £m	Cr £m
Investment Assets	The total value of Investment Assets had been understated by £0.7m.			4,360.7	
	Corrected Value			4,361.4	
Investment Liabilities	The total value of Investment Liabilities had been understated by £0.7m.			(0.8)	
	Corrected Value			(1.5)	

The above amounts relate to the treatment of the derivative investments.

Appendix 3 – Action Plan

Recommendations

Recommendation 1

Priority should be given to reconciling the pension fund balance on a monthly basis during 2012/13 with the aim of investigating any unexplained differences as quickly as possible. This work should include ensuring that the balance brought forwards from 2011/12 of £1.2m is investigated and addressed appropriately.

Responsibility	Deputy County Treasurer
Priority	High
Date	31/3/2012

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

www.audit-commission.gov.uk

September 2012

Draft letter of management representation

To:
Karen Murray
District Auditor
2^{nd} Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

Lancashire County Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Lancashire County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Lancashire County Council and Lancashire County Pension Fund.

I confirm that this letter has been discussed and agreed by the Audit Committee on 26 September 2012.

Signed

Gill Kilpatrick

County Treasurer

Date

Audit Committee
Meeting to be held on 26 September 2012

Electoral Division affected: All

Approval of the Lancashire County Pension Fund's Statement of Accounts 2011/12
Appendix "A" refers

Contact for further information:
George Graham, 01772 538102, County Treasurer's Department,
George.graham@lancashire.gov.uk

Executive Summary

The Lancashire County Pension fund is administered by Lancashire County Council and the accounts of the Pension Fund are published in the County Council's Statement of Accounts and also in the Annual Report of the Pension Fund. The accounts of the Pension Fund are subject to the Accounts and Audit (England) Regulations 2011, governing the finalisation of the County Council's accounts. The regulations require that the Chair of the committee that approves the accounts must sign and date them by 30 September 2012. The 2011/12 Pension Fund Statement of Accounts is attached at Appendix "A"

Recommendation

The committee is requested to review and approve the Lancashire County Pension Fund's Statement of Accounts for 2011/12 and the Chair of the committee is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

Under Government Regulations relating to the dates for the finalisation of Local Authorities' Statement of Accounts, the approval of the statement of Accounts of the County Council and the Pension Fund has been delegated by the County Council to the Audit Committee. The regulations state that the deadline for approving the accounts for the financial year 2011/12 is 30th September 2012. The Chair of the Committee is required to sign and date the copy of the Statement of Accounts at the Audit Committee meeting.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and initial consultation with the Audit Commission.

The Lancashire County Pension Fund's Statement is attached as Appendix "A".

Lancashire County Council

The committee is requested to approve the Statement of Accounts and the Chairman is requested to sign the tabled copy on page 23.

Consultations

The Accounts of the County Council, including those of the Lancashire County Pension Fund, were placed on deposit and available for public inspection between the 2nd July and 27th July 2012.

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
Final Accounts working papers	2011/12	Janet Kearton County Treasurers Department
Accounts and Audit (England) Regulations	2011	01772 533017

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Annual Report 2011/12

Contents

A. Management Structure

Management Structure as at 31 March 2012

Administering Authority
Lancashire County Council

Pension Fund Committee
2011/2012 (as at 31 March 2012)

Lancashire County Council
D A Westley (Chair)
M J Welsh (Deputy Chair)
T Aldridge
M Brindle
M Devaney
P Evans
M France
J Lawrenson
F De Molfetta
M Parkinson
T Pimblett
S Riches
G Roper
K Young

Blackburn with Darwen Borough Council
D Walsh

Blackpool Borough Council
M Smith

Lancashire Leaders' Group
P Goldsworthy
P Doyle

Co-opted Members representing Trade Unions
R P Harvey
R Whittle

Co-opted Member representing HE/FE Establishments
One vacancy

Fund Managers
Legal & General Investment Management
Newton Investment Management
J P Morgan Asset Management
UBS Global Asset Management
Knight Frank (Rutley Capital Partners)
Capital Dynamics
Mellon Transition Management

Custodian
Northern Trust

Independent Investment Advisers
E Lambert
N Mills

Treasurer to the Lancashire County Pension Fund
G Kilpatrick CPFA

Actuary
Mercer

Auditor
Audit Commission

Property Solicitors
Pinsent Curtis Biddle
Cobbetts

Independent Property Valuer
Cushman & Wakefield

Corporate Governance Adviser
PIRC

Performance Measurement
WM Company

AVC Providers
Prudential
Equitable Life

Legal Advisors (other than property)
In House

Bankers
National Westminster

B. Overview of Management and Financial Performance

The investment activities of the Lancashire County Pension Fund during 2011/12 have continued to be heavily influenced by geopolitical events.

The ongoing turmoil in the Eurozone in particular has produced a highly volatile backdrop to global investment activity; for much of the financial year the central concern of investors was the *return of capital* rather than the traditional *return on capital*. Central Banks, in particular the US Federal Reserve (Fed) and the Bank of England (BoE) , have provided further rounds of liquidity to financial markets via quantitative easing. The European Central Bank (ECB) has been forced by markets to produce a number of emergency measures to relieve the extreme pressure in the European banking system and government bond markets. By November 2011 there was a real danger of systemic collapse as interbank liquidity vanished. At this point the ECB unveiled the "Long Term Repo Operation (LTRO)" an unprecedented injection of billions of Euros into the banks for 3 years at 1.00%.

The systemic issue caused all "risk" markets to underperform during 2011 (FTSE100 fell 6%). The liquidity injection did provide substantial relief in the first quarter of 2012 (FTSE100 rose 2%) but it is clear that the fundamental issues in the Eurozone have not been solved merely pushed out into the future. Whilst the rest of the world provided some growth early in the year it was clear by early 2012 that the US, India and China were seeing growth but at slower rates than expected at this point in the economic cycle.

The impact on long term investors has been two fold

- Liquidity in most markets has diminished sharply widening the discounts available on illiquid asset classes such as infrastructure and secured loans – an advantage the Fund will look to capitalize on by making further allocations to less volatility and less liquid asset classes
- Price volatility has increased on Equities and similar investments raising risk profiles – confirming the need for the Fund to continue its diversification and risk management strategies

The FTSE All World index fell 3.81% and the FTSE All share fell 3.659% during the financial year, having been lower at the end of 2011. Credit markets continued to perform positively, the IBOX non Gilt Sterling index (a published index based on a broad range of high quality corporate bonds of varying maturity) rose 8.96%.

Government bond markets in the US, UK and core Europe performed very well over the 12 month period, the IBOX 5yr+ Gilt index rose 19.25%. Markets had expected that some monetary stimulus would be withdrawn during the year, leading to higher interest rates and reduced bond market performance but the continued concerns over fiscal deficits and default in peripheral Europe has kept safe haven bond markets very strong.

2011/12 was a period of complex re-allocation for the Fund. First steps into lower volatility investments were implemented late in the year as well as a major structural change to the Fund's equity investments, moving from predominantly domestic to global investing with an active risk management approach. Whilst these changes were made too late in the year to affect performance they represent a major shift in the Fund's investment management ethos.

The overall return achieved by the Fund during 2011/12 was 2.3% compared to the benchmark return of 3.3% and the average local authority return of 2.6%. This ranked in the 72th percentile of the WM Local Authority Universe, the majority of underperformance coming from the active equity mandates which have subsequently been terminated in line with the investment strategy agreed in January 2011.

During the year the Fund was cash flow positive, with income from contributions and investments exceeding expenditure on benefits and expenses by £94.3m.

The on going implementation of the Fund's investment strategy, the development of the Investment Panel together with improvements in governance, place the Fund in a better position to deal with developments in global risk, the international regulatory framework and the future of structure pensions in general.

Capital for long term investment is a scarce commodity post credit crunch, and the effects of forthcoming regulation for the banking (Basle 3) and insurance (Solvency 2) sectors will amplify the shortage, placing Local Government Pension Funds in a strong position to positively address the goals of full funding and sustainable cost, provided that investment, liability and, most importantly, risk management are addressed effectively in what will undoubtedly remain a period of extreme volatility..

Administration of the Fund has again been very strong over the year, the Treasury and Pension investment section winning Lancashire County Council's "Team of the Year" award at the 2011 Lancashire Pride awards, following from the Your Pension Services' success in 2010.

D Westley
Chairman of the Pension Fund Committee

G Kilpatrick CPFA
County Treasurer and Treasurer to the
Lancashire County Pension Fund

C. Governance of the Fund

The Pension Fund Committee has considered the governance arrangements relating to the administration and investments of the Fund in the light of the guidance issued by the Department for Communities and Local Government (DCLG) regarding the requirement to complete a Governance Compliance Statement, established for all areas of governance of pension fund activities.

Comprehensive terms of reference have been established for all areas of governance of pension fund activities including the Pension Fund Committee, the Investment Panel, the Administration Panel and issues delegated to the Treasurer to the Fund. These can be found in the Fund's Governance Policy Statement. Governance Policy Statement

The Fund's Governance Compliance Statement is shown below reporting compliance with guidance given by the Secretary of State.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT:

Principle		**Full Compliance**
A Structure	*(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council*	√
	(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee(1)	× (see note 1 below)
	(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	√
	(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√

B Representation	*(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)* *These include:* *(i) employing authorities (including non-scheme employers, e.g. admitted bodies)* *(ii) scheme members (including deferred and pensioner scheme members)* *(iii) independent professional observers (2)* *(iv) expert advisers (on an ad hoc basis)*	× (see notes 1 and 2 below)

Reasons for Partial Compliance

Note 1: Although District Councils, Scheduled Bodies and employees are represented, Admitted bodies are not. Admitted bodies only represent 7% of contributors to the fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. Trade Unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate.

Note 2: Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by officers and it is not apparent what added value such an appointment would bring.

C Selection and Role of Lay Members	*(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.* *(It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)*	√
D Voting	*(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.*	√
E Training/ Facility Time/ Expenses	*(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.* *(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*	√ √
F Meetings – Frequency	*(a) that an administering authority's main committee or committees meet at least quarterly.* *(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.* *(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.*	√ √ √

G Access	*(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.*	√
H Scope	*(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	√
I Publicity	*(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.*	√

Lancashire County Council's Annual Governance Statement

The County Council has produced its Annual Governance Statement for 2011/12. This statement sets out assurances on the County Council's governance arrangements, internal control and the way the County Council manages its affairs.

As the County Council is responsible for the administration of the Pension Fund, including the provision of systems, controls and governance and this statement embraces the activities of the Pension Fund.

D. Administration of the Pension Fund

Overview

The Local Government Pension Scheme is a statutory public sector pension scheme, and operates on a “defined benefit basis”. Lancashire County Council as 'Administering Authority' is required by law to administer the Scheme within the geographical area of Lancashire.

The County Council administers the Scheme for over 150 employers (a complete list of employers is set out in Note 1 of the Notes to the Financial Statements). These employers include organisations such as local authorities, further and higher education colleges and voluntary and charitable organisations. This includes a number of “Admitted Bodies”. These are organisations that have entered into an agreement with the County Council to participate in the Fund.

A Service Level Agreement (SLA) is in place between Your Pension Service and the Pension Fund Committee for the provision of pension administration services and support. An Annual Administration Report is produced in accordance with the SLA and describes the performance of Your Pension Service (YPS) against the standards set out in the Agreement during the year. The Report also details events and activities undertaken by YPS over the year and sets out any Scheme specific regulatory change.

The Pension Fund Administration Sub-Committee is required to ensure that the Pension Fund Committee’s functions as Administering Authority are discharged and to approve the Annual Administration Report. Annual Administration Report

A brief review of the year is set out below.

Review of the Year

2011/12 has been a year of change within Your Pension Service. By far the biggest development within the Service was the transfer of the Fund's pensioner payroll to an integrated pensions administration and payroll system. Savings were made as a result of this change and YPS has been able to pass these savings on to the Fund. This ensures that the Service continues to be cost effective with the cost of administration remaining below the Government’s key indicator.

Overall, administration performance was broadly in line with SLA targets and the Service met its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. Your Pension Service was delighted to be re accredited with the Government's Customer Service Excellence award in June 2011 as this Award reflects that customer service continues to be a priority for the Service.

Public Sector Pension Reform

In December 2011, the Chief Secretary to the Treasury, Danny Alexander MP, made a statement to the House of Commons on progress made in the negotiations with the Trades Unions in respect of the reform of public sector pension schemes. The statement sets out that heads of agreement had been established with most unions in the local government, civil service and teacher's pension schemes.

The statement was accompanied by a written ministerial statement from the Secretary of State for Communities and Local Government, Eric Pickles MP, specifically in respect of the Local Government Pension Scheme (LGPS), which stated that a 'heads of agreement' had been agreed between the main local government unions, the Local Government Association (LGA) and the Government regarding a way forward for the Local Government Pension Scheme. This agreement set out the principles to govern scheme design, ongoing costs management and governance of the new scheme.

Representatives from the Local Government Association and trade unions committed to agree and to cost a new scheme early in 2012 and have since announced their proposals for the new Local Government Pension Scheme to take effect from 1 April 2014. These proposals will now form the basis of consultation with scheme members, employers, funds and other scheme interests and a statutory consultation will follow during Autumn 2012 to implement these proposals.

The main provision of the proposals is that the new LGPS 2014 will be a Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme). More details can be found at (www.lgps.org.uk) and within the full Annual Administration Report. Annual Administration Report

Other information

Further statements relating to the administration of the Scheme including the Communication Policy Statement and the Pensions Administration Strategy Statement are available from the Fund and can be accessed via the Fund Website at:

http://www.yourpensionservice.org.uk

Your Pension Service can be contacted at:

PO Box 100
County Hall
Preston
PR1 0LD

Telephone: 01772 530530

E-mail: pensions.helpdesk@lancashire.gov.uk
http://www.yourpensionservice.org.uk

Participation in the Fund

		Number at 31 March 2012	Number at 31 March 2011
(1)	Active scheme members:		
	Scheduled Bodies	46,422	47,912
	Admitted Bodies	3,716	3,781
	Total	**50,138**	**51,693**
(2)	Pensioners:		
	Pensions in Payment	39,933	37,632
	Preserved Pensions	47,526	44,928
	Total	**87,459**	**82,560**

Additional Voluntary Contributions (AVCs)

The AVC providers to the Fund are Prudential and Equitable Life. The AVCs are invested separately from the Fund's main assets and are used to acquire additional money purchase benefits. Members participating in these AVC arrangements each receive an annual statement from the provider confirming the amounts held in their account and the movements during the year.

Note 20 of the Notes to the Financial Statements of this report contain a detailed breakdown of the current value of the Fund's AVCs.

Risk Management

The Fund's governance arrangements, described in this report, ensure that the management of the fund's administrative, management and investment risk is undertaken at the highest levels. The Fund recognises that risk is inherent in its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The Funding Strategy Statement identifies the risks, counter measures and monitoring and reviewing risks associated with the funding strategy of the Pension Fund. The key risks are shown in Annex 3 of the Funding Strategy Statement. Funding Strategy Statement

The policy in respect of investment risk, including monitoring and review of performance is found in the Statement of Investment Principles. Statement of Investment Principles

The County Council's Annual Governance Statement identifies how the system of internal control throughout the County Council is designed to manage risk. Annual Governance Statement

E. Investment Policy and Performance

Structure

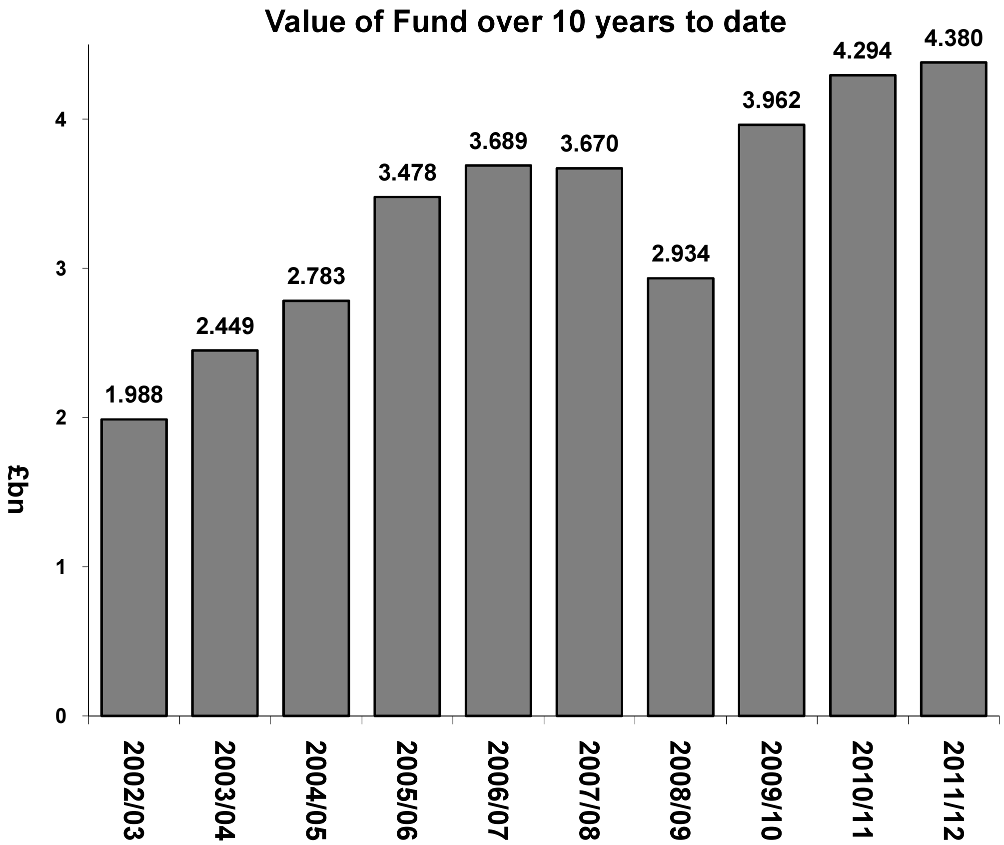
There are three levels of responsibility for the investment management of the Lancashire County Pension Fund (the "Fund"). First, the county council's Pension Fund Committee (the "Committee") takes major policy decisions and monitors overall performance, details of which can be found in the Statement of Investment Principles Statement of Investment Principles. Second, the Investment Panel (the "Panel") recommends specific investment allocations in line with the Committee's policy decisions and monitors the activity of the Fund's managers. Third, the investment managers fix precise weightings and select stock within the allocations set by the Panel and Committee. A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement. Governance Policy Statement

The Panel consists of two independent external investment advisers, the Chief Investment Officer, the Deputy County Treasurer and the Treasurer to the Pension Fund, who acts as Chair. The investments of the Fund are currently managed by six specialist external managers, one external index-tracking manager (multi-asset) and in-house. In-house, the Fund carries out its own treasury management and holds investments in infrastructure funds and non-investment grade credit funds directly. The various mandates, including their value at 31 March 2012 are shown below.

Manager	Mandate	Value £m
Legal & General Investment Management	Index tracking - multi asset	1,057.4
Newton Investment Management	Global Equities	615.6
JP Morgan Asset Management	UK Equities	501.4
UBS Global Asset Management	Bonds	672.7
Knight Frank	Property	383.9
Capital Dynamics	Private Equity	222.4
Mellon Transition Management	Global Equities	617.1
In-House	Cash, Bonds and Infrastructure	289.4
Total		4,359.9

Performance

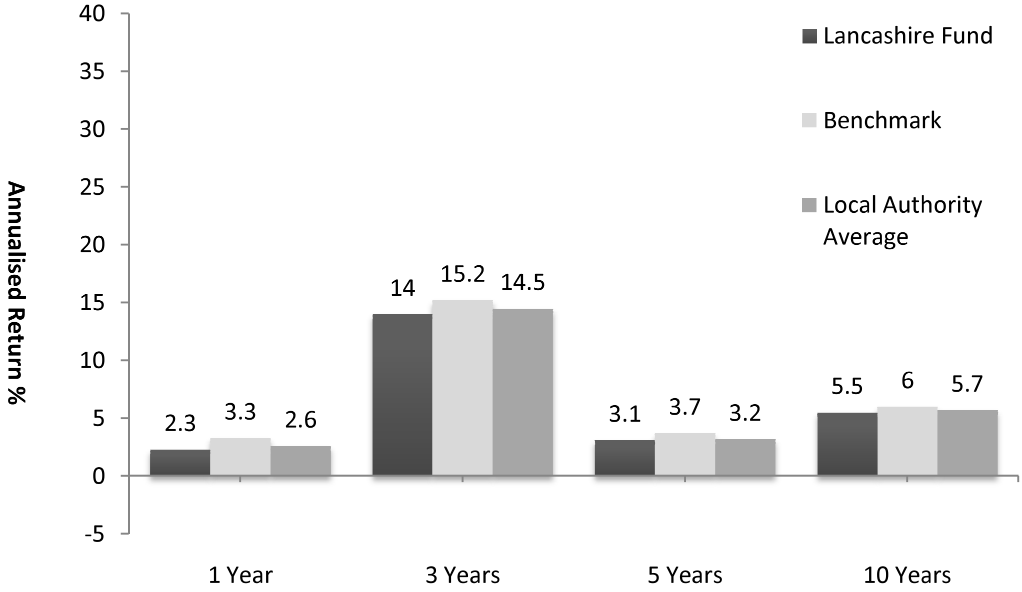
The value of the Fund over the last ten years is shown in the chart below:



The Fund is invested to meet liabilities over the medium-to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile, as seen in 2008/09 and do not necessarily indicate the underlying health of the Fund.

The performance of the Fund is measured against a Fund specific benchmark with individual managers being given performance benchmarks and targets which are linked to index returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. Statement of Investment Principles. The Fund also subscribes to the annual WM Survey of UK Local Authority Pension Funds, which shows comparisons with other local authority pension funds. The performance of the investment managers is reviewed on a regular basis by the Panel and any recommendations arising from those reviews are considered by the Committee.

Looking first at total Fund returns, the chart below shows the total return of the Fund compared to the fund specific benchmark and the average local authority pension fund return measured over 1,3,5 and 10 years to 31 March 2012:



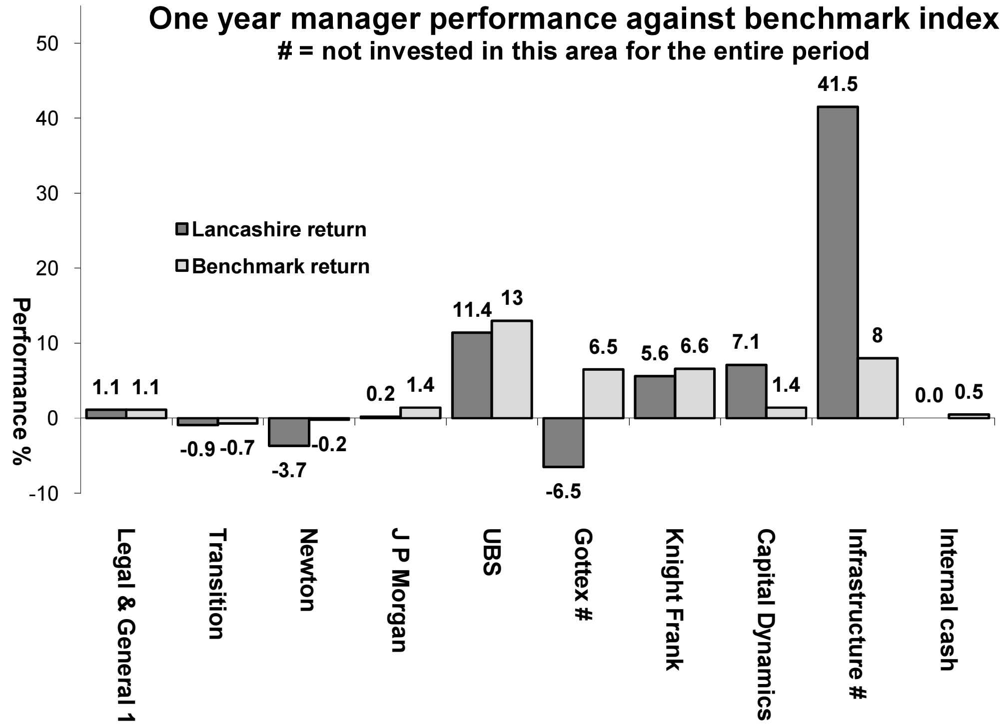
The modest Fund return of 2.3% masks a year of considerable volatility. For example, the Fund reported a fall in value of 8.7% in the quarter July to September 2011, which it has subsequently recovered. Markets have been particularly volatile reacting to the continuing concerns over the future of the euro and the health of the economies of the Eurozone.

The Fund's return of 2.3% is close to that of the average local authority pension fund of 2.6%. It ranks as the 72nd percentile in the WM analysis of local authority funds.

The chart above shows that the Fund was 1% behind its benchmark. The chart below analyses this relative return by asset class. It shows that the shortfall as compared to benchmark was largely a result of the under-performance reported by its active equity managers and its fixed interest manager. This public market under-performance (-1.5%) was mitigated by good returns from the Fund's private equity and infrastructure investments (+0.8%). The Fund's investment in a hedge fund continued to under-perform and was redeemed during the year.

The Fund's investment managers are set performance targets as shown in the Statement of Investment Principles. Statement of Investment Principles. The overall performance target of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance. These targets are set for the active managers i.e. those with a mandate to outperform a benchmark through active stock picking and sector allocations. The transition portfolio and that managed by Legal and General are passive portfolios where the manager seeks to track the benchmark.

Active managers have the discretion to invest a smaller or greater amount than the benchmark allocation, within agreed constraints and tolerances. These decisions will reflect their views on market conditions within various countries or between different types of instruments. The one year performance of the managers to 31 March 2012 is shown in the chart below:



The Legal & General and the transition portfolio (managed by BNY Mellon) have tracked their respective benchmarks.

The portfolios core equity mandates managed by Newton (Global Equities) and JP Morgan (UK Equities) continued to under-perform their benchmarks. Following a tender process for global equity managers, these managers will be replaced in the year ending 31st March 2013.

The UBS bonds portfolio has not performed to benchmark in the year because it was overweight in corporate bonds at the expense of UK government bonds which benefited from the exceptionally low interest rates and high prices.

The performance of the hedge fund managed by Gottex continued to be disappointing and this mandate was terminated during the year.

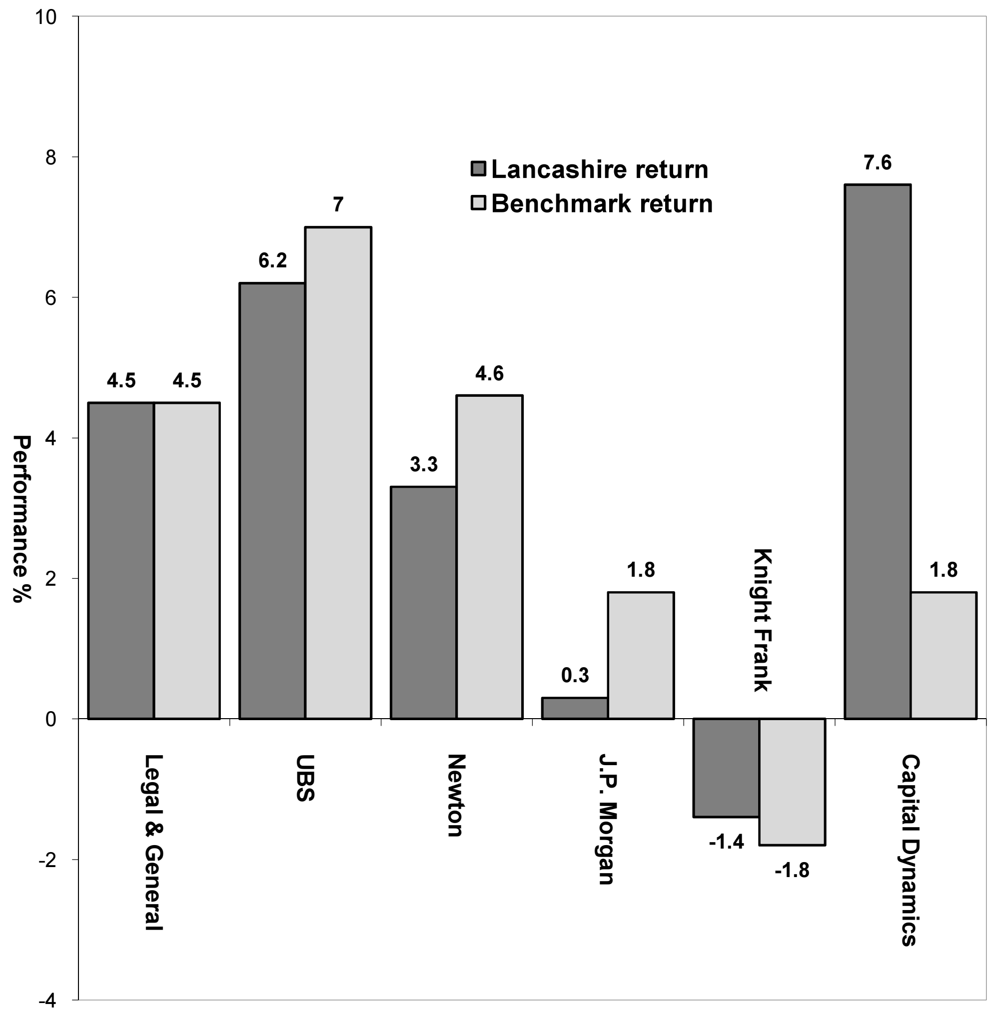
The Fund's property portfolio managed by Knight Frank continues to beat its benchmark long term, but its portfolio of high street retail properties suffered particularly in the current year.

The private equity portfolio managed by Capital Dynamics is focussed on buy-out funds and produced a return ahead of benchmark.

During the year the Fund has invested in a number of infrastructure asset funds, including the acquisition of assets out of administration, which produced an exceptional one-off return.

An analysis of the specialist managers' performance over five years is shown in the chart below:

Five year manager performance against benchmark index

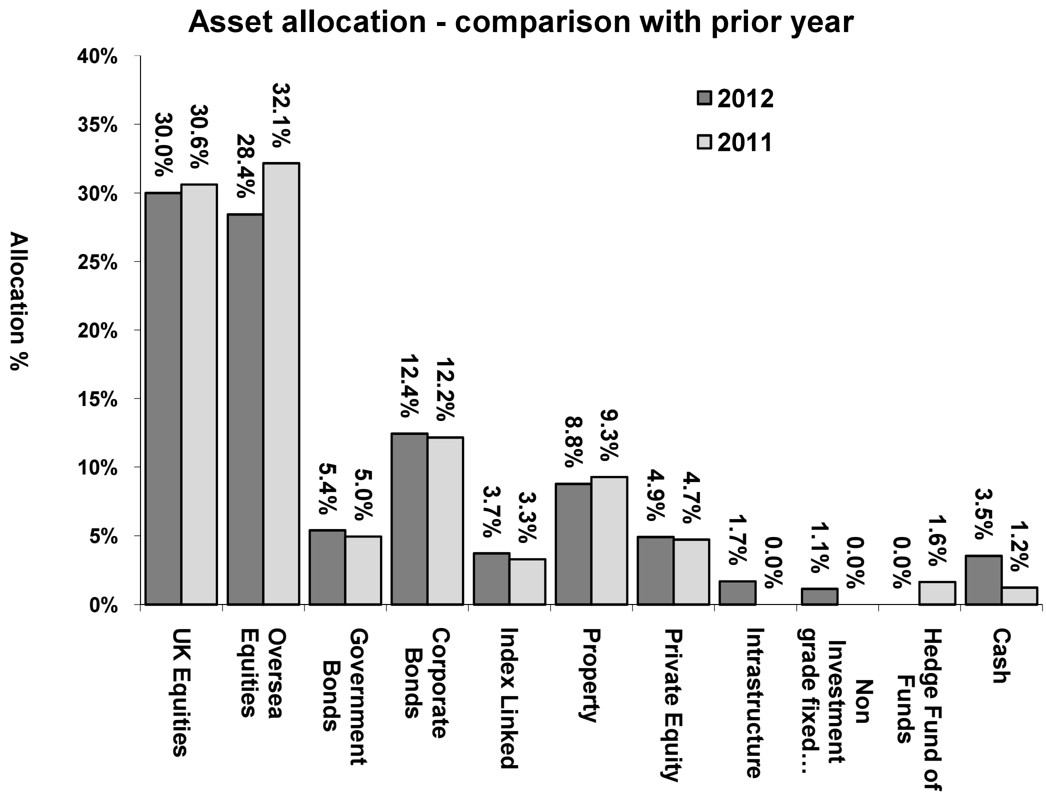


Measured over five years, the continuing under-performance of the Fund's active equity managers, Newton and JP Morgan is clear. As reported above these mandates will be terminated in the year ended 31st March 2013, to be replaced by unconstrained global equity mandates.

The passive tracking portfolios managed by L&G have performed to their benchmarks.

While the property portfolio has produced a negative return over five years, Knight Frank has out-performed the benchmark. The five year period returns are also distorted by the sharp fall in property values in 2008.

The private equity mandate managed by Capital Dynamics has significantly out-performed its public market benchmark by 5.8% per year.



The Fund is continuing with to implement its new investment strategy, and is actively bringing asset allocations up to the agreed benchmark. In the year it has commited funds to infrastructure funds and a non-investment grade fixed interest fund and redeemed its hedge fund investment.

While paid up investments in infrastructure funds represent 1.7% of the value of the Fund, the Fund also has unpaid commitments to infrastructure funds equivalent to 2% of the value of the Fund at 31st March 2012.

The largest individual direct investments of the Fund are disclosed in the following paragraphs.

The Largest ten equity holdings of the Fund at 31 March 2012 were:

Equity	**Market value 31 March 2012 £m**	**Percentage of net assets of the Fund %**
Royal Dutch Shell 'B' Shares	53.4	1.22%
GlaxoSmithKline Ord GBP0.25	49.6	1.14%
BP PLC Ord USD.25	46.5	1.07%
Vodafone Group Ord USD0.11428571	46.0	1.05%
HSBC Holdings Ord USD0.50	46.0	1.05%
British American Tobacco Ord GBP0.25	43.0	0.99%
RIO Tinto Ord GBP0.10	29.5	0.68%
AstraZeneca OrdUSD0.25	24.8	0.57%
BHP Billiton PLCUSD0.50	23.4	0.54%
BG Group PLC Ord GBP0.10	23.3	0.53%
Total	385.5	8.84%

The largest ten direct property holdings of the Fund at 31 March 2012 were:

Property	Sector	Market value 31 March 2012 £m
10 Brook St, London	Offices	32.8
Sainsbury Store, Elgiva Lane, Chesham	Shops	28.0
Princes Mead Shopping Centre, Farnborough	Shopping Centre	25.9
Benson House, Leeds	Offices	19.1
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	15.5
Somerfield Store, Wymondham	Shops	15.3
Tuscany Park, Wakefield	Industrial / Warehouse	15.1
1 & 2 Woodbridge Meadows, Guildford	Multi-let Commercial Building	13.7
Effra Road Retail Park, Brixton	Retail Warehouse	12.0
Endeavour Way, Wimbledon	Retail Warehouse	11.5
Total		188.9

Policies in respect of Socially Responsible Investment and Voting

Social, Environmental and Ethical Considerations

The Fund is active on governance issues through its membership of the Local Authority Pension Fund Forum ("LAPFF"), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

The Fund also uses the services of Pensions Investment Research Consultants ("PIRC"), which is a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility,

Policy on Voting

For many years, the Fund has followed the voting recommendations of PIRC with the Fund's managers being instructed to vote at shareholder meetings in accordance with

PIRC's recommendations. From 1st October 2011, PIRC has been acting as the Fund's proxy and casting the Fund's votes directly at shareholder meetings.

The Fund's investment managers receive advance notice of PIRC's voting intentions and may raise concerns with the Fund if they do not believe the recommended stance on a vote is in the best financial interests of the Fund.

The Committee delegates its agreement of any significant departure from the guidelines proposed by the managers, to the Treasurer as Chair of the Investment Panel. In all voting decisions the long-term financial interests of the Fund are paramount. There were no occurrences of this during 2011/12.

Policy on Risk

The overriding objective of the Fund in respect of its investments is to strike a balance between minimising risk and maximising return. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio. Within this the managers are regularly challenged by the Panel about the risk profile of the portfolios that they manage for the Fund.

Compliance with Myners Principles

The Fund is compliant with the Myners Principles, details of which can be found in the Statement of Investment Principles. Statement of Investment Principles

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

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

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

The Responsibilities of the Treasurer to the Pension Fund

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

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

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;

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

The Statement of Accounts relate to the financial year ended 31 March 2012 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
26 September 2012

Fund Account

	Note	2011/12 £m	2010/11 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	209.3	227.2
Transfers in	7	11.1	15.6
		220.4	242.8
Benefits	8	219.1	214.5
Payments to and on account of leavers	9	13.7	12.8
Administrative expenses	10	3.8	3.6
		236.6	230.9
Net additions from dealings with members		**(16.2)**	**11.9**
Return on investments			
Investment income	11	118.8	89.3
Profit and loss on disposal of investments and change in market value of investments	14	(7.9)	238.8
Investment management expenses	21	(8.3)	(8.0)
Net return on investments		**102.6**	**320.1**
Net increase (decrease) in the fund during the year		**86.4**	**332.0**

Net Asset statement for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Investment assets	14	4,361.4	4,282.1
Investment liabilities	14	(1.5)	(0.9)
Current assets	22	23.3	21.6
Current liabilities	24	(3.2)	(9.2)
Net assets of the fund available to fund benefits at the period end		4,380	4,293.6

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2012 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Sam Chapman

Chairman of the Audit Committee

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The county council is the reporting entity for this pension fund. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2011/12 cash inflows during the year consisted of £339.2 million and cash outflows were £244.9 million, representing a net cash inflow of £94.3 million (compared with an inflow of £93.2 million in the previous year). Benefits payable amounted to £219.1 million and were partially offset by net investment income of £118.8 million (including £19.4 million accrued dividends); contributions of £209.3 million and transfers in of £11.1 million produced the positive cash inflow.

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

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

		Number at 31 March 2012	Number at 31 March 2011
(1)	Active Scheme Members		
	Scheduled Bodies	46,422	47,912
	Admitted Bodies	3,716	3,781
	Total	**50,138**	**51,693**
(2)	Pensioners		
	Pensions in Payment	39,933	37,632
	Preserved Pensions	47,526	44,928
	Total	**87,459**	**82,560**

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
All Saints CE Primary School Academy
Barnoldswick Town Council
Belthorn Primary (Academy)
Bishop Rawstorne High Academy
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Bowland High Academy Trust
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Community Academy
Garstang Town Council
Hambleton Primary Academy
Hodgson Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancashire Workforce Development Partnership
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Lancaster RGS (Academy)
Lostock Hall Academy Trust
Myerscough College
Nelson & Colne College
Parbold Douglas CE Academy
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd
Ribble Valley Borough Council
Ripley St Thomas CE (Academy)
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Christopher's CE (Academy)
St Mary's College, Blackburn
St Michael's CE High (Academy)
St Wilfrid's CE Academy
Tarleton Academy
University of Central Lancs
West Lancs District Council
Westcliff Primary Academy
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (former solar contracts)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)
Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit

Admitted Bodies

Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
Creative Support Ltd (Midway)
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd
Hyndburn Homes Ltd
I Care
Jewson Ltd
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley
Liberata UK Ltd (Pendle)
Lytham School Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawsthorne)
Mellors Catering Services Ltd (Hambleton Primary)
Mellors Catering Services Ltd(Worden Sports College)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd NSL Ltd (Lancaster)
NSL Ltd
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd
Pendle Leisure Trust Ltd
Places for People Ind Supp Ltd
Preston Care and Repair
Preston Council for Voluntary Services
Progress Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Lancaster Royal Grammar School (boarding)

Admitted Bodies

Rossendale Leisure Trust
Signpost MARC Ltd
South Ribble Community Leisure Ltd
Sunguard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employees

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool and Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley and Pendle Joint Transport Committee
Burnley and Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancashire Development Corporation
Clitheroe Town Council
Connaught Environmental Ltd (Blackpool BC)
Connaught Enviromental Ltd (Blackpool Coastal)
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Development Associations
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport
Kirkham Grammar School (Boarding)
Lancashire County Enterprise
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning

Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council
Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawsthorne)
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Ripley)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other
Rossendale Transport Ltd
Blackpool Transport Services Ltd
Membership restricted to employees "deemed" at deregulation in 1986)

2. **Basis of Preparation**

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2011/12 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, value on an International Accounting Standard (IAS) 19 basis, is disclosed in note 31 of these accounts.

3. **Accounting Policies**

Fund Account revenue recognition

- **Contribution income**

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

Employers' augmentation contributions and pensions strain contributions are accounted for the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

- **Transfers**

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

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

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

- **Investment Income**

i. Interest income

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

ii. Dividend income

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

iii. Distribution from pooled funds

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

iv. Rental income

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

Fund Account –expense items

- **Benefits payable**

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

- **Taxation**

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

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

- **Investment Manager expenses**

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

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

  The fund does not currently pay performance related fees to its investment managers.
  When an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2011/12 £1,262,317.80 of fees is based on such estimates (2010/11 £1,294,239.45).

Net asset statement

- **Financial Instruments**

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

  On initial recognition the Fund is required to classify financial assets and liabilities into held to maturity investments, available for sale financial assets, held for trading, designated at fair value through profit and loss or loans and receivables.

  The assets and liabilities held by Lancashire County Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and liabilities at amortised cost.

  Financial instruments at fair value through profit or loss

  Financial assets may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the fund manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Loans and receivables

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

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

Financial liabilities at amortised cost

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

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2012. The fair value is the current bid price for quoted securities and unitised securities.

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

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

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

The methodologies adopted in valuing financial instruments are explained in greater detail in note 18.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2012. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

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

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2012 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

  The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.
  Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.
  Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin.

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

- **Cash and cash equivalents**

  Cash comprises of cash in hand and demand deposits.

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

- **Financial liabilities**

  The fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

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

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

  As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (Note 31).

- **Additional voluntary contributions**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

Securities Lending

Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'At fair value through income statement' or 'Available for sale' as appropriate.
Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation

Contingent liabilities and contingent assets

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

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

4. Critical Judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £287.5 million (£201.8 million at 31 March 2011).

Pension Fund Liability

The pension fund liability is calculated every three years by an appointed actuary, with annual updates in intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with actuary and are summarised in note 31. This estimate is subject to significant variances based on change to the underlying assumptions.

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

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

The items in the Pension Fund's net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £287.5m. There is a risk that this investment may be under or overstated in the accounts.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £580 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £90m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £130m.

6. **Contributions receivable**

	2011/12 £m	2010/11 £m
Employers' contributions		

County Council	68.5	70.9
Scheduled Bodies	75.7	85.6
Admitted	12.9	14.3
	157.1	170.8
Employees' contributions		
County Council	20.5	22.5
Scheduled Bodies	26.8	28.8
Admitted	4.9	5.1
	52.2	56.4
Total contributions	209.3	227.2

Within the employee contributions figure for 2011/12, £242,830.87 is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2011/12 £m	2010/11 £m
Individual transfers in from other schemes	11.1	15.6
Bulk transfers in from other schemes	-	-
	11.1	15.6

8. Benefits

	2011/12 £m	2010/11 £m
Pensions	163.6	149.2
Lump sum retirement benefits	51.0	60.9
Lump Sum death benefits	4.5	4.4
	219.1	214.5

9. Payments to and on account of leavers

	2011/12 £m	2010/11 £m
Refunds to members leaving service	0.1	0.1
Contributions equivalent premium	(0.1)	(0.0)
Individual transfers to other schemes	13.7	12.7
	13.7	12.8

10. Administrative expenses

	2011/12 £m	2010/11 £m
Administration and processing	3.4	3.3
Audit fee	0.1	0.1
Legal and other professional fees	0.3	0.2
	3.8	3.6

11. Investment income

	2011/12 £m	2010/11 £m
Fixed interest securities	27.7	23.9
Equity dividends	46.5	29.6
Index linked securities	2.8	4.6
Pooled investment vehicles	5.5	0.9
Rents from properties	26.0	23.3
Interest on cash deposits	0.7	1.5
Other	9.6	5.5
	118.8	89.3

12. Net rents from Properties

	2011/12 £m	2010/11 £m
Rental Income	26.0	23.3
Direct operating expenses	(1.2)	(1.6)
Net gain/loss	24.8	21.7

13. Stock Lending

Northern Trust is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2011/12 was £467,745 (2010/11 £178,513)

Securities on loan at the 31st March 2012 were £263m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £67m of equities and £196m of bonds.

Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £276m comprising all of government bonds.

14. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2011 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2012 £m
Fixed interest securities	559.1	696.0	(657.8)	26.1	623.4
Equities	1,735.1	401.0	(441.9)	(80.5)	1,613.7
Index linked securities	141.0	120.9	(159.1)	21.8	124.6
Pooled investments	1,395.5	399.2	(359.6)	31.2	1,466.3
Property	397.5	24.2	(34.1)	(3.7)	383.9
	4,228.2	1,641.3	(1,652.5)	(5.1)	4,211.9
Derivative contracts:					
Futures	0.9	41.4	(39.3)	(2.8)	0.2
Forward currency contracts	0.9				1.6
Purchased/written options					
Cash deposits	36.6				126.8
Other investment balances	14.6				19.4
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	4,281.2				4,359.9

	Market Value at 1 April 2010 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2011 £m
Fixed interest securities	448.1	406.4	(295.5)	0.1	559.1
Equities	1,011.7	1,090.4	(442.2)	75.2	1,735.1
Index linked securities	103.2	50.9	(15.9)	2.8	141.0
Pooled investments	1,962.2	154.9	(872.6)	151.0	1,395.5
Property	306.1	89.9	(9.1)	10.6	397.5
	3,831.3	1,792.5	(1,635.3)	239.7	4,228.2
Derivative contracts:					
Futures	-	4.1	(2.3)	(0.9)	0.9
Forward currency contracts	0.1				0.9
Purchased/written options					
Cash deposits	106.2				36.6
Other investment balances	12.7				14.6
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	3,950.3				4,281.2

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2011/12 amounted to £2,054,422 (2010/11: £2,316,511).

The investment assets at 31 March 2012 are managed by seven external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

	2011/12 £m	**%**
Manager		
Legal & General Investment Management	1,057.4	24
Newton Investment Management	615.6	14
J P Morgan Asset Management	501.4	12
UBS Global Asset Management	672.7	15
Knight Frank	383.9	9
Capital Dynamics	222.4	5
Mellon Transition Management	617.1	14
In-House	289.4	7
	4,359.9	100

	2011/12 £m	**2010/11 £m**
Fixed Interest Securities		
UK public sector quoted	234.3	179.9
UK corporate bonds quoted	289.0	352.3
Overseas public sector	-	-
Overseas corporate bonds	100.1	26.9
	623.4	559.1

	2011/12 £m	**2010/11 £m**
Equities		
UK quoted	772.8	833.1
Overseas quoted	840.9	902.0
	1,613.7	1,735.1

	2011/12 £m	**2010/11 £m**

	2011/12 £m	2010/11 £m
Index Linked Securities		
UK quoted	124.6	141.0
	124.6	141.0

	2011/12 £m	2010/11 £m
Pooled Investment Vehicles		
Managed/Unitised funds – UK Equities	537.0	448.9
Overseas Equities	400.3	423.2
Public Sector Bonds	-	-
Corporate Bonds	-	141.9
Index Linked	-	32.2
Unit trusts – UK Equities	-	22.3
Overseas Equities	-	4.8
UK Fixed Income Funds	192.2	-
Overseas Fixed Income Funds	49.3	-
Other pooled investment vehicles		
-UK	-	5.9
Overseas	-	44.9
Private Equity investments	287.5	201.8
Hedge Fund of Funds	-	69.6
	1,466.3	1,395.5

	2011/12 £m	2010/11 £m
Properties		
UK – Freehold	292.9	318.9
UK – Long Leasehold	91.0	78.6
	383.9	397.5

	2011/12 £m	2010/11 £m
Balance at start of the year	397.5	306.1
Additions	24.2	89.9
Disposals	(34.1)	(9.1)
Net gain/loss on fair value	(3.7)	10.6
Transfers in/out	-	-
Other changes in fair value	-	-
Balance at the end of the year	383.9	397.5

	2011/12 £m	2010/11 £m
Derivatives Contracts		
Futures Contracts	0.2	0.9
	0.2	0.9

Type of Future	Expiration	Economic Exposure £m	Asset £m	Liability £m
UK gilt exchange traded	3 months	9.6		-
Hang Seng (HKG)	1 month	4.7		0.1
MSCI Singapore Index	1 month	4.4		-
SPI 200 Index	3 months	12.5	0.3	
Total			**0.3**	**0.1**

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought £m EQV	Sold £m EQV	£m
Investment assets			
6 months and under	108.6	105.5	3.1
Investment liabilities			
6 months and under	58.2	59.7	(1.5)

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

	2011/12 £m	2010/11 £m
Cash Deposits		
Sterling	110.9	33.5
Foreign currency	15.9	3.1
	126.8	36.6

15. **Financial Instruments classification**

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

2012	Designated at fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	623.4	-	-
Equities	1,613.7	-	-
Index linked securities	124.6	-	-
Pooled investment vehicles	1,466.3	-	-
Derivative contracts	3.4	-	-
Cash deposits	-	126.8	-
Other investment balances	19.4	-	-
Debtors	-	23.3	-
Total Financial Assets	**3,850.8**	**150.1**	**-**
Financial liabilities			
Derivative contracts	1.6	-	-
Creditors	-	-	3.2
Total Financial Liabilities	**1.6**	**-**	**3.2**

2011	Designated at fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets		-	-
Fixed interest securities	559.1	-	-
Equities	1,735.1	-	-
Index linked securities	141.0	-	-
Pooled investment vehicles	1,395.5	-	-
Derivative contracts	2.7	-	-
Cash deposits	-	36.6	-
Other investment balances	14.6	-	-
Debtors	-	21.6	-
Total Financial Assets	**3,848.0**	**58.2**	**-**
Financial liabilities			
Derivative contracts	0.9	-	-
Creditors	-	-	9.2
Total Financial Liabilities	**0.9**	**-**	**9.2**

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

	2012 £m	2011 £m
Financial assets		
Fair value through profit and loss	7.9	238.8
Loans and Receivables	-	-
Financial Liabilities		
Fair value through profit and loss	-	-
Loans and Receivables		
Financial liabilities at amortised cost	-	-
Total	**7.9**	**238.8**

17. **Financial Instruments – Fair Value of Financial Instruments and Liabilities**

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date.

	Carrying Value 2012 £m	Carrying value 2011 £m	Fair Value 2012 £m	Fair Value 2011 £m
Financial assets				
Trading and other financial assets at fair value through profit and loss	3,347.5	3,284.0	3,850.8	3,848.0
Loans and Receivables	150.1	58.2	150.1	58.2
Total Financial Assets	**3,497.6**	**3,342.2**	**4,000.9**	**3,906.2**
Financial Liabilities				
Trading and other financial assets at fair value through profit and loss	1.6	0.9	1.6	0.9
Financial liabilities at amortised cost	3.2	9.2	3.2	9.2
Total Financial Liabilities	**4.8**	**10.1**	**4.8**	**10.1**

18. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

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

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3563.3	-	287.5	3850.8
Loans and Receivables	150.1	-	-	150.1
Total Financial assets	**3713.4**	**0**	**287.5**	**4000.9**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	1.6	-	-	1.6
Financial liabilities at amortised cost	3.2	-	-	3.2
Total Financial assets	**4.8**	**0**	**0**	**4.8**

2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,576.6	-	271.4	3,848.0
Loans and Receivables	58.2	-	-	58.2
Total Financial assets	**3,634.8**	**0**	**271.4**	**3,906.2**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.9	-	-	0.9
Financial liabilities at amortised cost	9.2	-	-	9.2
Total Financial assets	**10.1**	**0**	**0**	**10.1**

19. Nature and extent of risks arising from Financial Instruments

Risk and risk management

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

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

a) Market risk

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

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

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

Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2012-13 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	5.7%
Overseas bonds	11.8%
UK equities	15.3%
Overseas equities	14.8%
Index linked Gilts	7.6%
Cash	0%
Alternatives	7.7%
Property	9.4%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				
Investment portfolio assets:				
UK bonds	695.7	5.7%	735.3	656.1
Overseas bonds	100.0	11.8%	111.8	88.2
UK equities	1341.4	15.3%	1547.3	1135.6
Overseas equities	1236.9	14.8%	1420.3	1053.5
Index linked gilts	166.9	7.6%	179.6	154.2
Cash	147.9	0.0%	147.9	147.8
Alternatives	287.4	7.7%	309.6	265.2
Property	383.8	9.4%	419.7	347.9
Total asset available to pay benefits	4360.0		4871.5	3848.5

Asset Type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				
Investment portfolio assets:				
UK bonds	694.1	5.7%	733.6	654.6
Overseas bonds	26.9	11.8%	30.1	23.7
UK equities	1344.6	15.3%	1551.0	1138.3
Overseas equities	1385.4	14.8%	1590.8	1180.0
Index linked gilts	177.6	7.6%	191.2	164.1
Cash	53.8	0.0%	53.8	53.8
Alternatives	201.8	7.7%	217.4	186.2
Property	397.5	9.4%	434.6	360.3
Total asset available to pay benefits	4281.7		4802.5	3761.0

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**As at 31 March 2012**	**As at 31 March 2011**
	£m	**£m**
Cash and cash equivalents	126.8	36.6
Fixed interest securities	815.6	700.9
Total	**942.4**	**737.5**

Interest rate risk sensitivity analysis

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

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

Asset Type	Carrying amounts as at 31 March 2012	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	126.8	1.3	(1.3)
Fixed interest securities	815.6	8.1	(8.1)
Total change in asset available	**942.4**	**9.4**	**(9.4)**

Asset Type	Carrying amounts as at 31 March 2011	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	36.6	0.4	(0.4)
Fixed interest securities	700.9	7.0	(7.0)
Total change in asset available	**737.5**	**7.4**	**(7.4)**

Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end:

Currency exposure – asset type	Asset value as at 31 March 2012	Asset value as at 31 March 2011
	£m	£m
Overseas Equities	1236.9	1385.4
Overseas Bonds	100.0	26.9
Overseas Alternatives	187.9	169.8
Overseas Pooled	449.6	
Total overseas assets	1974.4	1582.1

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 9.7% (as measured by one standard deviation).

A 9.7% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,236.9	1357.0	1,116.8
Overseas Bonds	100.0	109.7	90.3
Overseas Alternatives	187.9	206.2	169.7
Overseas Pooled	449.6	493.3	406.0
Total change in assets available	1,974.4	2,166.2	1,782.8

Currency exposure – asset type	**Asset value as at 31 March 2011**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,385.4	1,520.3	1,250.5
Overseas Bonds	26.9	29.5	24.3
Overseas Alternatives	0.0	0.0	0.0
Overseas Pooled	169.8	186.3	153.3
Total change in assets available	1,582.1	1,736.1	1,428.1

b) Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2012 was £126.9 million (31 March 2011: £36.6 million. This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2012	Balances as at 31 March 2011
		£m	£m
Money market funds			
Bank of New York Mellon	Aa3	-	24.2
Bank deposit accounts			
Ulster Bank	Baa2	5.0	5.0
Northern Trust	A1	51.7	
Bank of New York Mellon	Aa3	0	5.2
Bank Current Accounts			
Natwest Account	A3	70.2	2.2
Total		**126.9**	**36.6**

c) Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2012 are due within the one year.

d) Refinancing risk

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. Additional Voluntary Contributions (AVC's)

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2011 to 31 March 2012 for Prudential and 1 September 2010 to 31 August 2011 for Equitable Life.

Additional Voluntary Contributions

	Equitable life £m	Prudential £m	Total £m
Value at the start of the year	1.4	15	16.4
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	3.7	3.8
Expenditure (incl. Benefits, transfers out, change in market value)	(0.3)	(4.5)	(4.8)
Value at the end of the year	1.2	14.2	15.4

21. Investment management expenses

	2011/12 £m	2010/11 £m
Administration, management and custody	6.7	6.2
Performance measurement service	0.1	0.1
Other advisory fees	1.5	1.7
	8.3	8.0

22. **Current assets**

	2011/12 £m	2010/11 £m
Contributions due from: Employers	10.4	13.3
Members	2.4	2.6
Transfer values receivable	-	-
Sundry Debtors	-	-
Cash balances	-	-
Debtors: bodies external to general government	10.5	5.7
	23.3	21.6

23. **Analysis of debtors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	5.5	7.3
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	17.8	14.3
	23.3	21.6

Included within the contributions due from employers figure is £2.4 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

24. **Current liabilities**

	2011/12 £m	2010/11 £m
Unpaid benefits	2.8	7.7
Accrued expenses	0.4	1.5
	3.2	9.2

25. **Analysis of creditors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	(1.2)	(2.8)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	4.4	12.0
	3.2	9.2

26. **Contingent Asset and Liability**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

27. **Contractual Commitments**

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2012 being £287.5m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2012 are £231.7m.

28. **Related Party Transactions**

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

- At 31 March 2012, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.

- The Pension Fund includes 66 scheduled and 154 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.

- The Pension Fund Committee comprises 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire Leaders Group, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2011/12. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

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

The council incurred costs of £2.9 million (2010/11: £2.9 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £68.5 million to the fund in 2011/12 (2010/11:£70.9m million). All monies owing to and due from the fund were paid in year.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire Council County. During the year to 31 March 2012, the fund had an average investment balance of £136.8 million.

29. Impairment of Icelandic Investment

Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki when it collapsed in October 2008. The Pension Fund was one of many UK and Dutch organisations with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that the Pension Fund will recover 100% of their deposits, subject to potential future exchange rate fluctuations.
The winding up board made its first distribution on 7th December 2011and a second distribution on 25th May 2012. Approximately 42% of the total claim has now been repaid.

The table below shows the combined amount of the distributions and the amount outstanding.

	£
Claim	
Principal	2,486,996.66
Interest	36,086.66
Total Claim	2,523,083.32
Distributions received to date:	
Principal	1,035,035.92
Interest	15,018.51
Total Distributions	1,050,054.43

Claim Outstanding	1,473,028.89

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

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

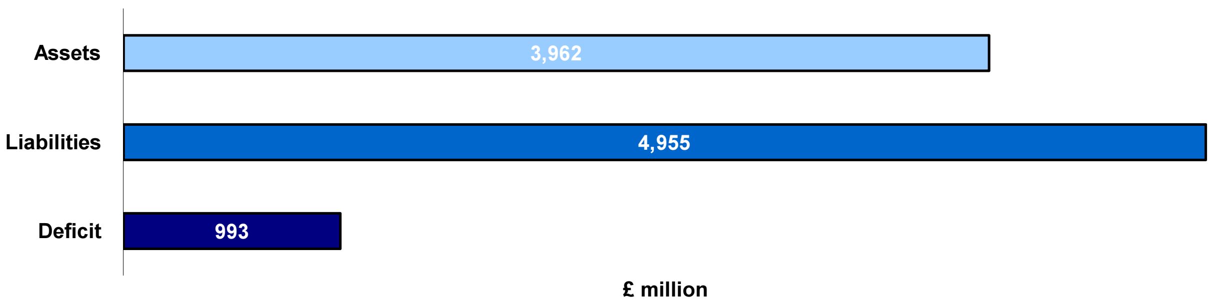
30. Funding arrangements

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £3,962 million represented 80% of the Fund's past service liabilities of £4,955 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

31. Actuarial Present Value of Promised Retirement Benefits for the purpose of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes. In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2012

32. **Statement of Investment Principles**

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at http://www.yourpensionservice.org.uk.

F. Actuarial Valuation

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2010 which determines contribution rates effective from 1 April 2011 to 31 March 2014.

The Funding objective is to achieve and then maintain assets equal to the funding target. The Funding target is the present value of 100% of projective accrued liabilities, including allowance for projected final pay. This is to comply with the requirements of the LGPS regulations to secure the solvency of the Fund and is accordance with the Funding Strategy Statement. The methodology and assumptions by which the Funding targets and contribution rates are calculated have also been determined in accordance with the Funding Strategy Statement. [Funding Strategy Statement]

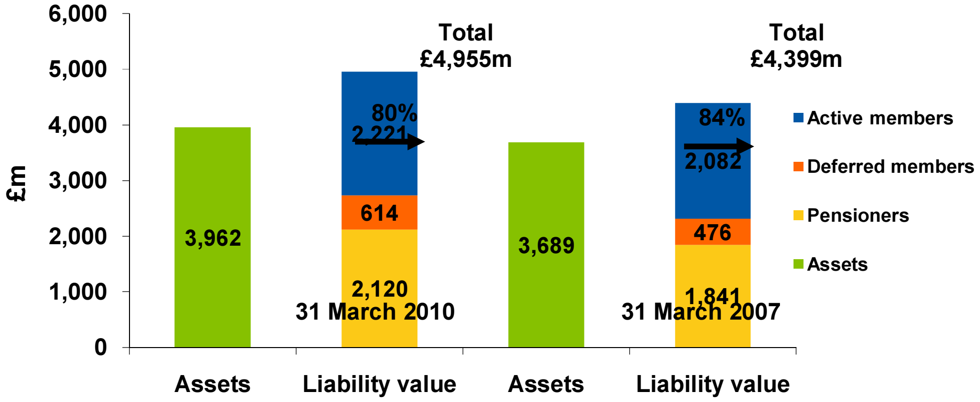
The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target date for achieving full funding is being maintained as at the 2007 valuation. The FSS also specifies any transitional arrangements ("phasing") for the implementation of revised employer contribution requirements.

The valuation (effective from 1 April 2011) revealed a funding level of 80% and an average employer's contribution rate of 19.1%. There have been a number of material developments which have impacted on the fund since the previous valuation in 2007. The introduction of an Inflation Risk Premium (IRP) into the determination of the pension increase assumption used for the valuation has offset the adverse impact of the fall in real yields since the 2007 valuation. The effect of the IRP in conjunction with the change from RPI to CPI indexation more than offsets the negative impact of the yields change. Revisions of the assumptions adopted for the 2010 valuation has overall acted to place a lower value on liabilities and has therefore improved the funding position.

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2010, detailing the breakdown of the 80% funding level is as follows:

Funding results – funding target

The market value of the Fund's assets at the valuation date is compared with the value of the Fund's past service liabilities (the funding target) below. The funding position at the previous valuation is shown for comparison.



The employer contributions for 2011/2012 are based on the 2010 valuation and the recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in the Schedule to the Rates and Adjustments at page 59 of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Annex 1 of the Funding Strategy Statement. Actuarial Valuation & Funding Strategy Statement

The Rates and adjustments certified and accompanying schedule extracted from the actuarial valuation are as follows:

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund	**Lancashire County Pension Fund**

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.5 per cent of Pensionable Pay.
I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.
Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions.
For employers where no allowance for non ill-health early retirement costs is included in the valuation a further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.
The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.
The contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured against a third party.

Regulation 36(8)

Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.
For four employers I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2011 taken into account when setting this employer's contribution rate.
No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions.

Signature	
Name	John Livesey
Qualification	Fellow of the Institute of Actuaries
Date of signing	31 March 2011

Schedule to the Rates and Adjustments Certificate dated 31 March 2011

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individua l Adjust-ment %	Total Contribu-tion Rate %	Amount £
ABM Catering Ltd	3.5	16.0	3.5	16.0	3.5	16.0	
Accrington & Rossendale College	7.1	19.6	7.1	19.6	7.1	19.6	
Accrington Academy	-1.8	10.7	-1.8	10.7	-1.8	10.7	
Alternative Futures	1.7	14.2	1.7	14.2	1.7	14.2	
Andron (City of Preston High)	-1.2	11.3	-1.2	11.3	-1.2	11.3	
Andron (Glenburn Sports College)	0.5	13.0	0.5	13.0	0.5	13.0	
Andron (Kennington)	0.0	12.5	0.0	12.5	0.0	12.5	
Andron (Ribblesdale High)	-0.3	12.2	-0.3	12.2	-0.3	12.2	
Arnold Schools	5.0	17.5	6.2	18.7	7.4	19.9	
Beaufort Avenue Day Care Centre	14.0	26.5	17.7	30.2	21.3	33.8	
Blackburn College	2.9	15.4	2.9	15.4	2.9	15.4	
Blackburn St Mary's College	1.7	14.2	1.7	14.2	1.7	14.2	
Blackburn with Darwen Borough Council	3.1	15.6	3.6	16.1	4.1	16.6	
Blackpool & The Fylde College	5.0	17.5	5.0	17.5	5.0	17.5	£246,000
Blackpool Airport Ltd (from July 2004)	20.5	33.0	24.5	37.0	27.8	40.3	
Blackpool Borough Council	3.9	16.4	4.4	16.9	4.9	17.4	£697,600
Blackpool Coastal Housing	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Sixth Form College	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Transport Services Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0	
Blackpool Zoo (Grant Leisure)	5.5	18.0	7.1	19.6	8.8	21.3	
Blackpool, Fylde & Wyre Society for the Blind	29.5	42.0	32.5	45.0	35.5	48.0	
Bootstrap Enterprise Ltd	0.2	12.7	0.2	12.7	0.2	12.7	
Bulloughs (Highfield)	-2.0	10.5	-2.0	10.5	-2.0	10.5	
Bulloughs (St Augustines)	1.9	14.4	1.9	14.4	1.9	14.4	
Bulloughs (St Marys)	4.0	16.5	4.0	16.5	4.0	16.5	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contrib u-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individua l Adjust-ment %	Total Contribu-tion Rate %	Amount £
Burnley Borough Council	12.5	25.0	12.5	25.0	12.5	25.0	
Burnley College	2.3	14.8	2.3	14.8	2.3	14.8	
Calico Housing Ltd	6.8	19.3	6.8	19.3	6.8	19.3	
CAPITA	12.2	24.7	14.1	26.6	16.0	28.5	
Capita (Rossendale BC)	3.1	15.6	4.6	17.1	6.0	18.5	
Cardinal Newman College	3.3	15.8	3.3	15.8	3.3	15.8	
Caritas Care Ltd (was Catholic Caring Services)	6.2	18.7	6.2	18.7	6.2	18.7	
Catterall Parish Council	2.3	14.8	2.3	14.8	2.3	14.8	
Chorley Borough Council	6.8	19.3	7.3	19.8	7.8	20.3	
Chorley Community Housing	1.6	14.1	1.6	14.1	1.6	14.1	
Church Road Methodist Day Centre	6.7	19.2	7.0	19.5	7.3	19.8	
Commission for Education & Formation	8.0	20.5	8.0	20.5	8.0	20.5	
Community Council of Lancashire	8.3	20.8	8.3	20.8	8.3	20.8	
Community Gateway Association Ltd	1.7	14.2	2.4	14.9	3.0	15.5	
Connaught Environmental (Blackpool BC)	-3.9	8.6	-3.9	8.6	-3.9	8.6	
Connaught Environmental (Blackpool Coastal Housing)	0.5	13.0	0.5	13.0	0.5	13.0	
Consultant Caterers Ltd	2.5	15.0	2.5	15.0	2.5	15.0	
Contour Housing Association	4.1	16.6	4.1	16.6	4.1	16.6	
Creative Support Ltd	1.6	14.1	1.6	14.1	1.6	14.1	
CXL Ltd	-0.6	11.9	-0.6	11.9	-0.6	11.9	
Danfo (UK) Ltd	172.2	184.7	172.2	184.7	172.2	184.7	
Darwen Aldridge Community Academy	-1.2	11.3	-1.2	11.3	-1.2	11.3	
E ON UK Plc	6.2	18.7	6.2	18.7	6.2	18.7	
Edge Hill University College	1.5	14.0	2.0	14.5	2.5	15.0	
Enterprise Managed Services Ltd	1.1	13.6	2.4	14.9	3.6	16.1	
Eric Wright Commercial Ltd	5.4	17.9	5.4	17.9	5.4	17.9	
Fulwood Academy	-1.3	11.2	-1.3	11.2	-1.3	11.2	
Fylde Borough Council	7.0	19.5	8.3	20.8	9.5	22.0	
Fylde Coast YMCA (Fylde)	-2.0	10.5	-2.0	10.5	-2.0	10.5	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
Fylde Community Link	4.3	16.8	4.3	16.8	4.3	16.8	
Galloways Society for the Blind	32.2	44.7	32.2	44.7	32.2	44.7	
Garstang Town Council	-1.3	11.2	-1.3	11.2	-1.3	11.2	
Housing Pendle Ltd	1.8	14.3	1.8	14.3	1.8	14.3	
Hyndburn Borough Council	12.3	24.8	12.3	24.8	12.3	24.8	
Hyndburn Homes Ltd	1.4	13.9	1.4	13.9	1.4	13.9	
I Care	-1.6	10.9	-1.6	10.9	-1.6	10.9	
Kirkham Grammar School	4.1	16.6	4.6	17.1	5.1	17.6	
Kirkland Parish Council	2.5	15.0	2.5	15.0	2.5	15.0	
Lancashire & Blackpool Tourist Board	1.1	13.6	1.1	13.6	1.1	13.6	
Lancashire County Branch Unison	8.0	20.5	8.0	20.5	8.0	20.5	
Lancashire County Council	5.8	18.3	6.2	18.7	6.6	19.1	
Lancashire Fire & Rescue Service	5.0	17.5	5.0	17.5	5.0	17.5	£199,000
Lancashire Police Authority	2.3	14.8	2.8	15.3	3.3	15.8	£450,500
Lancashire Probation Committee	6.6	19.1	6.6	19.1	6.6	19.1	
Lancaster & Morecambe College	4.1	16.6	4.1	16.6	4.1	16.6	
Lancaster City Council	8.1	20.6	8.1	20.6	8.1	20.6	
Lancaster University	1.9	14.4	2.2	14.7	2.6	15.1	
Leisure in Hyndburn	3.3	15.8	4.5	17.0	5.7	18.2	
Liberata	6.0	18.5	6.0	18.5	6.0	18.5	
Liberata UK Ltd (Chorley)	8.9	21.4	8.9	21.4	8.9	21.4	
Lytham Schools Foundation	2.2	14.7	2.2	14.7	2.2	14.7	
Mellor's (formerly Wyre)	1.7	14.2	1.7	14.2	1.7	14.2	
Mellor's Catering (Cardinal Newman)	5.0	17.5	5.0	17.5	5.0	17.5	
Myerscough College	0.8	13.3	1.0	13.5	1.1	13.6	
Nelson and Colne College	3.3	15.8	3.3	15.8	3.3	15.8	
New Fylde Housing	42.3	54.8	42.3	54.8	42.3	54.8	
New Progress Housing	3.9	16.4	3.9	16.4	3.9	16.4	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
NHS PCT Blackburn	1.6	14.1	1.6	14.1	1.6	14.1	
NIC Services Group Ltd	2.5	15.0	2.5	15.0	2.5	15.0	
North Western & North Wales Sea Fisheries Committee	13.4	25.9	13.4	25.9	13.4	25.9	
Northgate Managed Services	0.1	12.6	0.1	12.6	0.1	12.6	
NSL Ltd (Lancaster)	4.5	17.0	4.5	17.0	4.5	17.0	
NSL Ltd (Wyre BC)	0.6	13.1	0.6	13.1	0.6	13.1	
Ormerod Home Trust Ltd	11.7	24.2	13.7	26.2	15.5	28.0	
Our Lady Queen of Peace (Bullough Contract Services)	3.5	16.0	3.5	16.0	3.5	16.0	
Pendle Borough Council	12.1	24.6	14.1	26.6	16.2	28.7	
Pendle Leisure Trust Ltd	1.2	13.7	1.2	13.7	1.2	13.7	
Penwortham Town Council	1.5	14.0	1.5	14.0	1.5	14.0	
Pilling Parish Council	4.8	17.3	4.8	17.3	4.8	17.3	
Preston Care and Repair	6.0	18.5	6.0	18.5	6.0	18.5	
Preston City Council	5.6	18.1	6.1	18.6	6.6	19.1	
Preston College	2.7	15.2	3.0	15.5	3.3	15.8	
Preston Council for Voluntary Services	9.4	21.9	9.4	21.9	9.4	21.9	
Progress Care Housing	3.9	16.4	3.9	16.4	3.9	16.4	
Progress Housing Group Ltd	3.9	16.4	3.9	16.4	3.9	16.4	
Progress Recruitments	2.9	15.4	2.9	15.4	2.9	15.4	
Queen Elizabeth's Grammar School	8.3	20.8	9.3	21.8	10.3	22.8	
Ribble Valley Borough Council	3.6	16.1	4.1	16.6	4.6	17.1	
Ribble Valley Homes	1.8	14.3	1.8	14.3	1.8	14.3	
Rossendale Borough Council	13.8	26.3	15.3	27.8	16.8	29.3	
Rossendale Leisure Trust	0.2	12.7	1.2	13.7	2.1	14.6	
Rossendale Transport Ltd	10.7	23.2	19.3	31.8	27.8	40.3	
Runshaw College	2.6	15.1	2.9	15.4	3.2	15.7	
Signposts MARC Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjust-ment) %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Individual Adjust-ment %	Total Contribu-tion Rate %	Amount £
Solar Facilities (Bishop Raws)	-12.5	0.0	-12.5	0.0	-12.5	0.0	
Solar Facilities (Ripley)	8.5	21.0	8.5	21.0	8.5	21.0	
Solar Facilities (Seven Stars)	3.4	15.9	3.4	15.9	3.4	15.9	
Solar Facilities (St Peters)	-3.0	9.5	-3.0	9.5	-3.0	9.5	
Solar Facilities (Tarelton)	1.4	13.9	1.4	13.9	1.4	13.9	
South Ribble Borough Council	6.8	19.3	7.8	20.3	8.8	21.3	
South Ribble Community Leisure Ltd	10.4	22.9	10.4	22.9	10.4	22.9	
St Anne's on Sea Town Council	-1.4	11.1	-1.4	11.1	-1.4	11.1	
Surestart Hyndburn	-2.0	10.5	-1.0	11.5	-0.1	12.4	
Twin Valley Homes Ltd	3.8	16.3	3.8	16.3	3.8	16.3	
University of Central Lancashire	1.6	14.1	1.6	14.1	1.6	14.1	
University of Cumbria (was St Martins College)	1.5	14.0	1.5	14.0	1.5	14.0	
Vita Lend Lease BSF ICT	0.2	12.7	0.2	12.7	0.2	12.7	
Vita Lend Lease Ltd	1.3	13.8	1.3	13.8	1.3	13.8	
West Lancashire Borough Council	7.5	20.0	7.5	20.0	7.5	20.0	
West Lancashire Community Leisure Ltd	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Whitworth Town Council	3.6	16.1	3.6	16.1	3.6	16.1	
Wyre Borough Council	12.6	25.1	12.6	25.1	12.6	25.1	
Wyre Housing Association	57.8	70.3	57.8	70.3	57.8	70.3	

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged %
Alzheimer's Society	See notes
Barnoldswick Town Council	See notes
Blackpool & Fylde Mind Association	See notes
Blackpool & Fylde Society for the Deaf	100
Blackpool Town Centre Forum Ltd	See notes
Bulloughs (St Albans)	See notes
Burnley & Pendle Development Association	100
Burton Manor Residential College	100
Carden Croft Ltd	See notes
Community Alliance (Burnley & Padiham) Ltd	See notes
CSB Contract Services	See notes
Elm House Management Committee	See notes

Former Employers	Proportion of Pension Increases to be Recharged %
Ex Department of Transport	100
Ex National Health Service	100
Ex National Water Council	100
Fylde Coast Development Association	100
Lancashire South East Probation Committee	100
Lancashire Valuation Tribunal	See notes
New Directions	See notes
Preston Vision Ltd	See notes
Salmesbury & Cuerdale Parish Council	See notes
Skelmersdale College	See notes
Spastics Society	100

Note:
Members of the Fund employed by Skelmersdale College have transferred to membership of the Tyne and Wear Fund, and so a bulk transfer payment will be required. Any residual funding shortfall in the LCPF after the transfer payment should then be recovered from the College.

For the remaining employers listed as "see notes" above further calculations are required in connection with them ceasing to participate in the Fund. Further details for these employers will be notified in due course.

H. Contacts

http://www.yourpensionservice.org.uk

Benefits and other Administrative Issues

Pensions Helpdesk
Your Pension Service
PO Box 100
County Hall
Preston
PR1 0LD
Telephone: 01772 530530
E-mail: pensions.helpdesk@lancashire.gov.uk

Pension Benefits and Administration

Diane Lister
Head of Your Pension Service
Telephone: 01772 534827
E-mail: diane.lister@lancashire.gov.uk

General Pension Fund Investment/Accounting Queries

Telephone: 01772 534724
Fax: 01772 533948
E-mail: Pensionsfinance@lancashire.gov.uk

Pension Fund Accounts, Investments and Governance

Mike Jensen
Chief Investment Officer
Telephone: 01772 534742
E-mail: mike.jensen@lancashire.gov.uk

Audit and Governance Committee
Meeting to be held on 26 September 2012

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2011/12
(Appendix 'A' refers)

Contact for further information:
George Graham, 01772 538102, County Treasurer's Department
george.graham@lancashire.gov.uk

Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit Committee. The 2011/12 accounts should be approved by the 30 September 2012.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2011/12; the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2011/12 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to this Committee.

The regulations governing the production of the annual accounts require that the 2011/12 accounts should be approved by the 30 September 2012.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2011/12; the statement itself is attached as Appendix 'A'.

Lancashire County Council

Preparation of the Statement

The Statement of Accounts has been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is known as the Code.

A number of accounting adjustments agreed with the external auditor (shown in the Auditor's Annual Governance report in a separate item on this agenda) are reflected within the statement.

Main Components of the Statement

The table immediately below sets out the main component parts of the Statement and their purpose. Following the table is a commentary on the key issues from the Statement.

ITEM	PAGE	BRIEF EXPLANATION
Introduction	3	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	10	The district auditor's opinion on our accounts for 2011/12.
Statement of Responsibilities	15	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	16	Sets out assurances on our governance arrangements and the way we manage our affairs.
Movement in Reserves Statement	22	Provides details of the movement in reserves held by the authority.
Comprehensive Income and Expenditure Statement	24	A summary of the revenue expenditure and income of the Council, analysed by service in accordance with the Code. This statement consolidates all gains and losses experienced by the authority during the financial year.
Balance Sheet	25	Our assets and liabilities at 1st April 2010, 31 March 2011, 31st March 2012, and

Key Issues

Status of the Statement of Accounts

Details of the Council's spending and income in 2011/12, and how it compared with the budget, was reported to the Cabinet on 5 July 2012. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

The main differences between how the year end position is presented to Cabinet (i.e. the "management accounts") and the formal Statement considered here by this Committee include:

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 24) follows the compulsory Service Reporting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council;

- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 9 (page 57) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystalise at the same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

Financial Statements

1. Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2010/11 and 2011/12 usable reserves have increased by £110.617 million.

The MIRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year, and is analysed by:

a) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) The increase or decrease in the net worth of the authority as a result of movements in the fair value of our assets.

c) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

2. Comprehensive Income and Expenditure Statement (CIES)

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority in the financial year. As authorities do not have any equity in their Balance Sheets, the total overall movement of gains and losses in the CIES should reconcile to the overall movement in net worth in the Balance Sheet.

The CIES is presented in two sections:

a) (Surplus) or Deficit on the Provision of Services – this is the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

b) Other Comprehensive Income and Expenditure – this shows other changes in net worth which have not been reflected in the (Surplus) or Deficit on the

Provision of Services. This includes items such as movements in the fair value of assets and actuarial gains or losses on pension assets and liabilities.

3. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31st March each year. The top half contains the assets and liabilities that it owns, or has accrued with other parties. As local authorities do not have equity, the bottom half is made up of reserves that show the full breakdown of the authority's net worth and is analysed as follows:

a) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the County Fund Balance, earmarked revenue reserves and the Capital Receipts Reserve).

b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 54

3.1 Long term assets have increased by £183.871 million – the major changes are explained below:

a) Property Plant and Equipment has increased by £219.944 million, of which an increase of £245.883 million relates to the inclusion of Waste PFI on the balance sheet and a reduction of £97.988 million reflects the value of Academy schools being written out of the Council's balance sheet.

Other differences relate to positive and negative outcomes on the 2011/12 revaluation of assets, expenditure in year, depreciation charges, reclassification of items from work in progress to Property Plant and Equipment and items reclassified as items Held for Sale.

b) Long term investments have decreased by £40.409 million in line with the Council's treasury management strategy to rebalance its portfolio through a conversion to Short term investments in line with the maturity profile of 364 days and under.

3.2 Current assets have increased by £126.448 million, the most significant areas are shown below:

a) Cash and Cash equivalents have reduced by £23.460 million. This is mainly due to the treasury management strategy to reduce 'cash equivalents' and short term investments, and increase long term investments as explained above in section 3.1.b.

b) There has been a £9.216 million reduction in short term debtors, which relates in the main to a reduction in capital, and government grant debtors.

c) £159.181 million relates to an increase in short term investments, resulting for the most part from long term investments falling within 364 days of their maturity date and therefore being reclassified as short term investments.

3.3 Current liabilities have decreased by £15.951 million, the major changes are shown below:

a) Short term borrowing has increased by £3.203 million in line with the Council's treasury management strategy to reduce long term and increase short term borrowing, in order to take advantage of low short term interest rates.

b) Creditors have reduced by £2.646 million. The breakdown of the authority's creditors is shown in note 47.

c) Receipts in advance have reduced by £9.004 million due mainly to the release of significant amounts held for major development works within the year.

d) Short term provisions have decreased by £7.505 million mainly due to the planned release of funding from the early retirement provision.

3.4 Long term liabilities have increased by £419.643 million, the most significant changes are shown below:

a) The pension liability has increased by £174.284 million. Full details relating to the Council's pension liability can be seen in disclosure note 66.

b) Long term borrowing has increased by £246.243 million. Treasury management long term borrowing increased by £21.968m. PFI liabilities increased in year by £224.275m mainly due to a change in accounting standards requiring the recognition of the waste pfi liability and the offset of payments in year.

Our net worth in the Balance Sheet has decreased by £93.372 million from £1,122.854 million in 2010/11 to £1,029.483 million at 31 March 2012.

4. Cash Flow Statement

This statement reflects the total movement of cash and cash equivalents into and out of the organisation. The cash flow statement is shown at page 27 in the accounts.

Auditor’s Report

It is the external auditor's opinion that the accounting statements

- give a true and fair view of the state of Lancashire County Council's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Full details of the Audit Commission's findings are contained within the 2011/12 Annual Governance Report which has been submitted to the Audit Committee as a separate item.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 27.

Consultations

Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2011-12 Accounts commenced on 2nd July and ended on 27th July 2012.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2011/12 must be approved by 30 September 2012.

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix A.

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

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2011/12	Steve Freeman, County Treasurer's Tel : 01772 533114
Accounts and Audit Regulations	2011	

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

Lancashire County Council

Statement of Accounts

2011/12

Contents

Introduction to the statement of accounts

- **Purpose of the statement of accounts**

This statement forms the formal audited accounts of the County Council for the financial year 1 April 2011 to 31 March 2012. The production of the statement is prescribed by Statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2011.

The statement gives the reader an overall impression of the finances of the County Council for the financial year 2011/12. It is one of a series of reports and publications on the Council's finances and financial position.

The main parts of the statement of accounts are:

- **The Auditor's Report** – the district auditor's opinion on our accounts for 2011/12.
- **The Annual Governance Statement** – assurances on our governance arrangements and the way we manage our affairs.
- **The Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the authority's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the County Fund balance for Council tax setting purposes. The net increase/ decrease before transfer to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.
- **The Comprehensive Income and Expenditure Account** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority are matched by the reserves held. Reserves are reported in two categories, usable and unusable.
- **The Cashflow Statement** – shows the changes in cash and cash equivalents of the authority during the reporting period.
- **The notes to the accounts** – supporting information which sets out further details and explanations of many entries within the financial statements listed above.
- **The Pension Fund accounts** – a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the County Council, and are included in this statement for information only.

Revenue spending in 2011/12

The overall financial health of the County Council at the end of the 2011/12 financial year continues to be strong.

The Council has continued to demonstrate:

- Strong financial management, through managing the costs of demand led services within budget.
- Strong delivery arrangements through achieving the delivery of savings early ensuring that it is relatively easier to meet future years' targets within the three year budget.
- Innovation through the successful implementation of the Treasury Management Strategy, and
- Flexibility through redeploying resources to address the County Council's priorities.

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

The final position in respect of spending on services was an underspend of £24.0m largely arising from the early achievement of the 2012/13 below the line savings, particularly in relation to management costs and accommodation.

Due to the exceptional economic circumstances, a one-off contribution of £55.7m has been made to the County Council's financial position by the management of the Council's bond portfolio as part of the measures taken to protect the security of County Council's investments.

As part of the Medium Term Financial Strategy the Council has already agreed to allocate £40m of the exceptional Treasury Management contribution and £12m of the service under spend to investment in priority areas.

At 31 March 2012 the County Fund balance stood at £36.5 million representing 4.9% of the 2012/13 budget requirement. A general reserve on this scale is regarded as sufficient to manage the significant financial risks facing the County Council going forward.

There are a further £169.5m of revenue reserves (including trading operations but excluding Schools reserves). This now includes specific provision for the Council's Strategic Investment programme, future severance costs and the Service Transformation Programme to be delivered through One Connect Limited on a business case basis.

There are also £35.5m of specific revenue provisions the most significant of which is £18.4m in respect of insurance.

Schools

The Schools delegated budget has under spent by £4.6m whilst the centrally held budget for schools spending has under spent by £6.96m. As a result Schools balances stand at £53.96m with other schools reserves and provisions totalling £27.1m.

Capital spending in 2011/12

The total of the County Council's capital spending in 2011/12 was £152.2 million. This reflects the County Council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

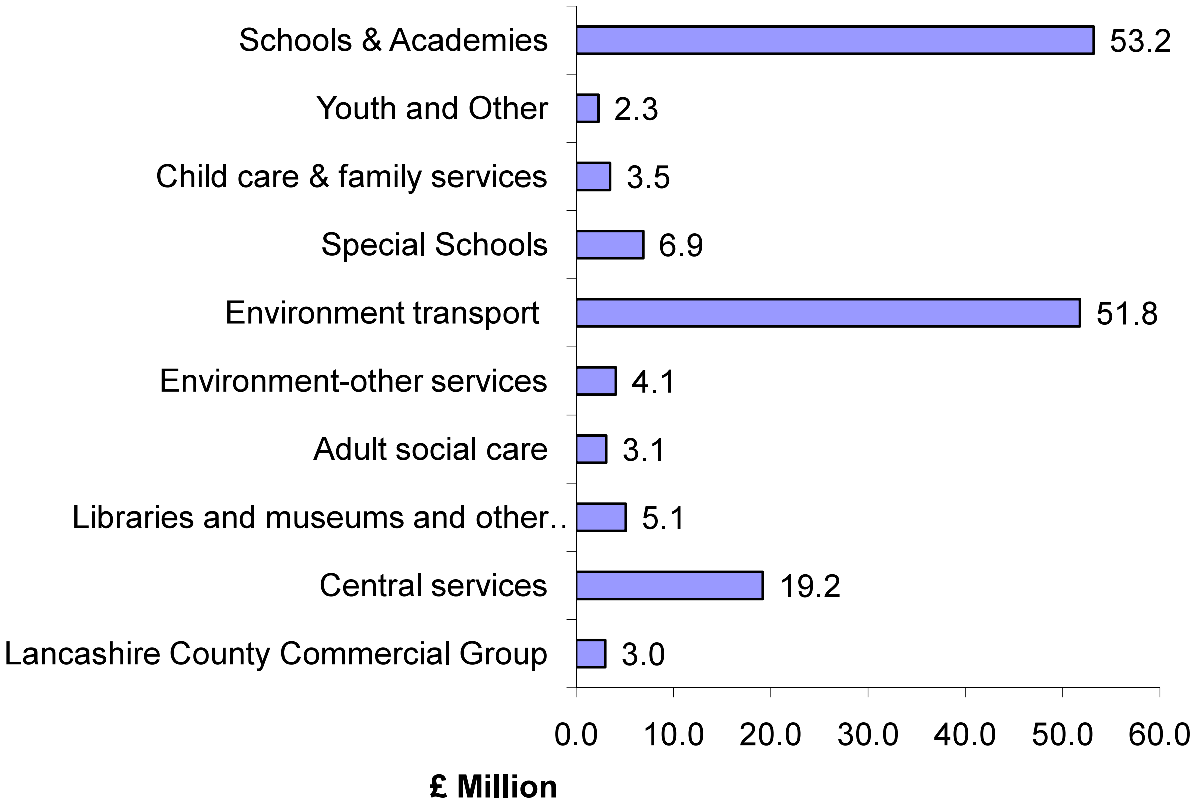
- Completion of a new primary school at Rawtenstall
- Completion of a special school in West Lancashire
- New teaching block at Southlands High School, Chorley
- New Science blocks for Bacup & Rawtenstall Grammar and Lytham St Annes High School
- Completion of over 600 individual schemes to maintain the County's transport infrastructure covering energy reduction, drainage, footways and roads
- Progressed work on the Guild Wheel, a 21 mile continuous cycle route around Preston
- Completion of the first phase of the 20mph speed limit programme in residential areas across Lancashire
- A new replacement Wyre Respite Centre
- Learning Disabilities Modernisation Scheme which involved the refurbishment or replacement of several Day Centres
- The refurbishment of the Day Centre at Temple St, Burnley for people with Learning Disabilities and/or Physical Disabilities with Sensory Impairments

In addition the waste PFI scheme entered service in 2011/12 providing two waste treatment facilities to receive and process waste from households in Lancashire and Blackpool together with associated facilities and transport of waste around the network.

The expenditure was funded from government grants, capital receipts, other income, revenue contributions and also by long-term borrowing.

The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2011/12 was £818.390 million although some of this relates to assets which have been transferred to other authorities. That part for which the County Council is financially responsible is £773.163 million of which the majority is with the Public Works Loan Board (PWLB). The average rate of interest paid on all the debt in 2011/12 was 2.11% compared with an average rate for 2010/11 of 2.69%.

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



Other financial performance measures for the year include:

- Treasury Management activity has generated average interest on investments of 7.00%;
- As at the end of the year the proportion of outstanding debt over 6 months old was 10.2% compared to 14.8% a year earlier;
- The average number of debtor days (a measure of the speed of income collection) was 42.1 days compared to 46.7 days a year earlier.

Full details of spending, income and budget variances are set out in the report on the final accounts to Cabinet on 5 July 2012. This is available on our website:

http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122.

There is more information on our performance in the Corporate Strategy Monitoring Report and its compendium of performance indicators, also available via the website.

Outlook for the future

The economic context within which the County Council operates remains difficult, with significant pressure on public sector spending. The Chancellor's Autumn Statement made it clear that austerity measures could continue up to 2016/17, and that local government can expect to have to deliver the same level of savings as in the current comprehensive spending review.

Within this challenging context, it is vital that the County Council's three year budget strategy remains on track, and that action is taken to manage financial risks as they arise. This is in order to maintain a planned reduction in spend, with the impact on services carefully considered and to ensure the continued provision of sustainable services to the most vulnerable people within Lancashire's communities.

Looking ahead to 2013/14, there are a number of new financial risks facing the County Council as set out below:

Business Rates Retention
From April 2013 local authorities will retain a proportion of the locally collected Business Rates receipts as the main source of their funding outside Council Tax receipts.

As a result authorities are subject to volatility in income if business rates receipts fluctuate. Monitoring and managing this volatility is a key risk for the County Council and its financial strategy reflects this risk.

Localised Support for Council Tax
Council Tax Benefit (CTB) is to be replaced in April 2013 by localised support for Council Tax with an expectation from Government that the costs of such support will be 10% less than the costs of CTB. Work continues to design a potential county wide scheme which achieves the objectives set by the Government within the funding envelope which would mitigate this financial risk. The decision on the scheme to be implemented rests with each District Council as the billing authority, and is subject to consultation with the County Council.

While the county wide development work is continuing, the risk the County Council is exposed to is realised if a scheme adopted by the billing authorities does not contain the cost of the scheme within the funding provided.

Further, in addition to the potential financial risk from the scheme design, there is a risk related to changes in the number of claims. Experience during the economic downturn indicates that volumes of claims can change quickly with a corresponding financial impact. The County Council is therefore subject to the costs that any such changes could generate.

Technical Changes to Council Tax
The Government has also approved changes to a number of technical areas within the design of council tax, for example the levels of relief available for empty and second homes. Again decisions on whether to implement those elements of these changes which are discretionary are for the billing authorities; however the Government has made an explicit linkage between these changes and the changes to Council Tax Benefit.

Individual billing authorities will make decisions about how to implement these changes in the context of their own policy objectives and the final level of income realised will also be determined by the view taken on the ability to collect the additional income which is likely to vary between districts.

The use of any additional Council tax resources is a matter for the Council to determine as part of its overall budget process.

Discretionary Social Fund
Responsibility for discretionary Social Fund Payments will transfer to the County Council in April 2013. These payments potentially bring volatile demand, and based on historic information from the Department for Work and Pensions a volatility of +/- £1m is possible. The nature of this service indicates that high volatility is likely.

Public Health
More clarity is now available on the potential level of resources for the new Public Health service and the impact on Lancashire of the proposed needs based formula. The needs base formula would seem to indicate some growth in resources over time although this will depend both on the total level of resources allocated by the Government and the rate at which individual areas are moved from the baseline position to the pure allocation derived from the needs based formula.

Managing demographic demand within services
Nationally, significant increases in demand for social care, particularly for adults, are being reported. Whilst the level of demand is being managed in Lancashire, the level of demand for learning disability services being experienced within the Adult and Community Services Directorate is increasing and therefore impacting on the forecast of the County Council's costs in 2013/14.

In addition, the full impact of the changes to ordinary residence has not yet been established. Whilst provision has been made for the additional costs arising from the clarification in the ordinary residence regulations within the three year budget, this could provide a further pressure in 2013/14.

Changes in the Accounts

There is one area of change in that for 2011/12 there is a requirement for Heritage Assets to be reflected on the Balance Sheet. These are assets held for their contribution to knowledge and culture and are mainly held by the Museums service or the special library collection. In the past in accordance with accounting policies these assets have not been included in the Authority's assets and therefore the 2010/11 accounts have been restated. There have been no significant acquisitions, disposals or impairment on these assets and it is therefore estimated that the value of the assets at 31 March 2011 was £28.4m and the Balance sheet has been restated to reflect this.

Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the County Treasurer on 26 September 2012.

No material events after the balance sheet date have been identified.

Pension's liability

Pension costs are reported in line with International Accounting Standard 19 (IAS 19). This means that the notional costs of retirement benefits are charged to the accounts as they are earned by employees in the year; finance costs (interest costs and the return on assets) must also be included.

These notional costs are then reversed out of the accounts and substituted by the actual cash costs of employer pension contributions in the Statement of Movement in Reserves in order to give the Council's actual spend position for the year. (This position is set out in detail in note 66 to the accounts.)

The treatment under IAS 19 also means that the Council's balance sheet includes an entry for the accumulated pension liability, which is a forecast of the long term liability to pay staff retirement benefits. (The balance sheet also contains an equal and offsetting notional pension's reserve entry.)

At 31 March 2012 the pensions liability calculated by the actuary is £939.496 million, an increase of £174.284 million over the previous year's figure of £765.212 million. The net liability of £939.496 million is split between the Local Government Pension Scheme (£802.134 million) and the Teachers Pension Scheme (£137.361 million).

Gill Kilpatrick CPFA
County Treasurer
26 September 2012

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

Opinion on the authority financial statements

I have audited the financial statements of Lancashire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the County Treasurer 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Lancashire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the “Pension fund operations and membership” section to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund’s financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the “Pension fund operations and membership section” for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Lancashire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of accounts of Lancashire County Council and Lancashire County Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission

Karen Murray

District Auditor

Audit Commission

2nd Floor, Aspinall House

Aspinall Close

Middlebrook

Bolton

BL6 6QQ

September 2012

Statement of responsibilities for the statement of accounts

The County Council's responsibilities

We must:

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

The County Treasurer's responsibilities

The County Treasurer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2012.

In preparing this statement of accounts, the County Treasurer has:

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

They have also:

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

Annual Governance Statement – Financial Year 2011/2012

This statement is prepared in compliance with the requirements of the Accounts and Audit Regulations 2011, to prepare a statement on internal control in accordance with proper practices and the guidance on those practices provided by CIPFA and SOLACE in 2007.

The council's responsibilities in relation to internal control

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

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

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government'.* The council also complies with CIPFA's statements on the role of the Chief Financial Officer in Local Government and on the role of the Head of Internal Audit in Public Service Organisations.

The code of corporate governance is available on the Council's website and hard copies can be obtained by contacting Roy Jones on 01772 533619. This statement explains how the council has complied with the code and identifies further actions to be taken to improve controls over corporate governance during the coming financial year.

The council's code of corporate governance has been approved by the cabinet and considered by Full Council, the Audit Committee and the Management Team.

This Annual Governance Statement will be considered for approval by the Audit Committee on 25 June 2012, and will be reported to the council on 12 July 2012.

The purpose of the governance framework

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

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

This statement confirms that the governance framework has been in place at the council for the year ended 31 March 2012.

The council's governance framework

This section highlights the key elements of the systems and processes that comprise the council's governance arrangements in accordance with the six principles of corporate governance included in the code:

The Council has a Corporate Strategy which sets out its vision for Lancashire for the period 2012-13. The strategy is refreshed annually to reflect changes in both local and national priorities.

- The council is keenly aware of the need to ensure that it delivers on its ambitions. Regular reports are considered by the Cabinet Committee on Performance Improvement which set out performance against both local and national indicators and in relation to progress against the objectives as set out in the Corporate Strategy including progress towards the achievement of the council's corporate performance priority areas. The council's Customer Access Strategy has the vision 'That everyone in Lancashire can get help and information on all the County Council's services conveniently and efficiently.' The council uses the views of the public through its 'Living in Lancashire' residents' panel and bespoke research and consultation activities to inform decision making.

- Lancashire has a leader and cabinet model of executive government and the roles and responsibilities of the different elements of the executive, leader, cabinet, and individual cabinet members, are set out in its constitution. In May 2012, the Full Council gave detailed consideration to the governance implications of the Localism Act 2011 including the retention of the Leader and cabinet model and a petition scheme.

- The Council's current scrutiny arrangements have been in place since May 2010. It comprises three scrutiny committees - the Scrutiny Committee, Education Scrutiny Committee and Health Scrutiny Committee.

The Forward Plan of executive decisions appears on the agenda of each committee, and cabinet members are regularly called to committees to be questioned about areas of policy. The committees appoint task groups to undertake scrutiny reviews which are then considered by the relevant committee for adoption. When recommendations are made to a cabinet member, a protocol requires an initial response to be provided to the committee within three months. This requirement will change to two months in 2012/13 to comply with the requirements of the Localism Act 2011. During the year scrutiny reviews through appointed task groups have considered a range of Council services and externally provided services. The functions of the Scrutiny Committee include scrutiny of the council's crime and disorder partnership, which is the Safer Lancashire Board. The committee is also responsible for the scrutiny of flood risk management.

The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial variations in service delivery in the health service and scrutinising the work of the NHS more generally. The committee has devoted a considerable amount of time and resource in the year to monitoring and scrutinising the impact of the proposed health service reforms on Lancashire, as well as continuing its role to monitor and scrutinise service delivery.

A standing joint health committee has been established with Blackburn with Darwen and Blackpool councils to consider substantial variations in services affecting all three areas. The principle area of work for the joint committee has been on a review of mental health provision.

A statutory Scrutiny Officer has been appointed in accordance with the terms of the Localism Act 2011.

- In advance of the statutory requirement to establish a Health and Wellbeing Board in April 2013, the Council has established a Shadow Board which is leading on the strategic co-ordination of commissioning across the NHS, social care and public health to secure better outcomes for the population, better quality of care for patients and care users and better value for the taxpayer. One of the key tasks of the Shadow Board is to develop a Health and Wellbeing Strategy for Lancashire.

- The Council has also been preparing, as Lead Authority, for the establishment during 2012/13 of a Police and Crime Panel for Lancashire, which is required to be a joint Committee of the 15 pan-Lancashire local authorities, its purpose being to support and scrutinise the new Police and Crime Commissioner for Lancashire following his/her election in November 2012.

- The council has had a Standards Committee which complied with statutory requirements. Its views were sought during 2011/12 on the provisions in the Localism Act 2011 to abolish the national standards regime and to make new local arrangements for a Code of Conduct, registration and declaration of interests and the handling of complaints against members. Under its statutory role as the local filter for complaints that there has been a breach of the code of member conduct, it has considered 23 complaints in total since May 2008. Of these only three have been referred for investigation, which demonstrates the high standards of conduct of members of the council. There has been a report of the committee's proceedings to each meeting of the Full Council and the committee has undertaken monitoring of compliance with both member and officer codes. The Full Council meeting in May 2012 reviewed the standards arrangements including the disestablishment of the Committee and the introduction of new arrangements from 1 July 2012.

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

  - The terms of reference of the Audit Committee and other committees of the Council will be revised in 2012/13 to reflect the changing governance arrangements around standards and the code of conduct for members arising out of the Localism Act 2011.

  - The council has a well regarded Internal Audit Service that provides an independent and objective opinion to the council on its control environment (comprising governance, risk management and internal control) by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. It works with officers to develop the control environment, and supports management's compliance with established policies, control procedures, laws and regulations. It also provides a counter fraud and investigatory service through its annual Counter Fraud Plan and produces an annual report on Counter Fraud and Special Investigations for the Audit Committee.

  - There is an effective whistle blowing procedure in place which is well publicised to staff. Reports on the level of use and outcomes have been presented to the Standards Committee and Audit Committee.

- The scheme of delegation to officers enables decisions to be taken at the most appropriate and effective level. A fundamental review of the Scheme of Delegation to Chief Officers will be undertaken in 2012/13 to adopt the principle that chief officers will have the power to take decisions except where specifically reserved to Full Council, a Committee or the Executive. It is considered this will make decision making more efficient whilst continuing to ensure robust governance within the Council. A review will be simultaneously undertaken of the Council's Financial Regulations and Cabinet Member delegations.

- The council's Constitution includes a Protocol on County Councillor/ Officer Relations. A series of corporate political awareness training sessions for staff at all management levels of the Council, involving leading Councillors, has been underway in 2011/12 and will continue across Council Directorates in 2012/13.

- During 2012/13 the Council will launch a 'Think Councillor Guide' to embed amongst the officer structures of the Council the need to think about County Councillors in the work they undertake.

- There is a Corporate Risk Management Policy and Strategy and guidance on risk management is available to officers. Following the introduction of a new corporate approach to risk management in January 2012, this policy, strategy and guidance will be reviewed and updated during 2012/13.

- The process for ensuring legality and financial probity in relation to decisions has a number of components:

    - There are common templates for reports to committees and the cabinet, and also for decisions made by cabinet members.

    - Cabinet member decision-making is governed by statute and the Council's constitution and the Council has a decision-making protocol to manage the process, which will be reviewed in 2012/13.

    - Within that protocol, officers formulating reports are required to have regard to particular issues and in particular take legal and/ or financial advice at an early stage if that is warranted.

    - All reports leading to decisions are checked within the office of the county secretary and solicitor to ensure that governance issues are identified and statutory and financial requirements are complied with.

    - Corporate advice and guidance is provided on the implications of the public sector equality duty contained within the Equality Act 2010 and includes an Equality Impact Assessment template.

    - A full review of the process for the production of reports for decision is underway, with the intention of making the process more efficient whilst maintaining the high standards of governance required.

- A new software system has been rolled out to support decision making and the tracking of reports. Further work is intended to take place in 2012 to develop this system further to support the decision making rules and protocols.

- There is a two-stage corporate complaints procedure in addition to statutory complaints procedures in relation to children's and adult social care. The corporate procedure includes an Appeals and Complaints Committee comprising elected members.

- There is a cross-party member development working group in place with the remit of planning and co-ordinating member development activities to meet individual and group needs. Officer training is overseen through a new performance and development review process which was rolled out to all officers during 2011.

- The Council has fully reviewed its system for recording officer gifts, hospitality and interests. Revised policies have been introduced and publicised to staff and an online form has been developed to make it easier for officer to record any interests or gifts and hospitality, and for that data to be collated and made available to senior managers.

- The current arrangements in relation to Information Governance are in the process of being reviewed in the context of recent advice from the Information Commissioner's Office and Department for Communities and Local Government. - The advice includes a recommendation that organisations should identify an individual at Board Level (Management Team) to act as the Senior Information Risk Owner.

The Council is aware that for communication with the community to be effective, it needs to be approached on a number of levels. Examples of the way in which the Council engages with its communities include:

- High profile communication campaigns to encourage communities to take up our services or help change their attitudes and behaviours

- Use of media relations and social media to keep residents informed of our activities

- Encouraging members to use social media to engage with their communities

- Council and committee meetings are web-cast

- Member representation on neighbourhood management boards across Lancashire.

Review of effectiveness

The council conducts an annual review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the council's Management Team within the council, who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also for comments made by the external auditors and other review agencies and inspectors. The council is also required to review the effectiveness of its internal audit and this is undertaken by the county treasurer.

Statements of assurance have been completed and signed by members of the Management Team as to the effectiveness of the governance arrangements for which they are responsible, including the system of internal control. These statements of assurance cover all the principles set out in the council’s Code of Corporate Governance. They reveal no significant areas of weakness in the council’s corporate governance arrangements; all arrangements have been categorised as either good or adequate. However, more than one service area has noted the need to support the council's plans to improve information governance arrangements, and has also raised the need to refresh their service contingency plans.

In her annual report, the head of internal audit reports her concern that the procurement processes followed across the council have not in all cases followed corporate procedures. The need to improve the council's arrangements to ensure good information governance has also been highlighted.

Programme of improvement on governance issues

The council has recognised the need to review its information governance arrangements. It has recently reconvened its cross-service Corporate Information Governance Group and is reviewing its framework of control and guidance that will better secure the information it holds.

There is an ongoing programme to refresh service continuity and contingency plans, supported by the business continuity manager and principal emergency planning officer.

The transfer of the council's procurement activity to management by its strategic partner, One Connect Limited, is intended (amongst other things) to ensure robust compliance with the council's procurement procedures. The work of the partnership is subject to close scrutiny both by the Chief Executive and his Management Team, and by members including the Leader.

The council will, in the coming year, review its governance arrangements as the current national standards regime is abolished and additional responsibilities are placed upon the Audit Committee, and as CIPFA and SOLACE revise their guidance on good governance in local government. The roles and terms of reference of a number of committees are already under review and this work will continue into 2012/13. In addition, the council has a project plan in place to respond to the potential governance structures to emerge from the proposed significant changes to the health service and the duties this will place on local authorities.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed by Geoff Driver

Leader of Lancashire County Council

Date: 25 June 2012

Signed by Phil Halsall

Chief Executive of Lancashire County Council

Date: 25 June 2012

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before transfers to earmarked reserves line shows the statutory County Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

<u>2011/12</u>

	County Fund	Earmarked Revenue Reserves	Trading Reserve	Capital Funding Reserves (Revenue)	Useable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total unusable Reserves (Note 8)	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1st April 2011	(41,926)	(185,815)	(3,716)	(11,792)	(24,144)	(58,662)	(326,054)	(796,800)	**(1,122,854)**
<u>Movement in Reserves During 2011/12</u>									
(Surplus) / Deficit on provision of services	(70,274)	-	-	-	-	-	(70,275)	-	(70,275)
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	165,666	165,666
Total Comprehensive Income and Expenditure	**(70,274)**	**-**	**-**	**-**	**-**	**-**	**(70,275)**	**165,666**	**95,391**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 9)	21,164	-	-	-	1,222	(64,718)	(42,332)	**42,332**	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(49,111)**	**-**	**-**	**-**	**1,222**	**(64,718)**	**(112,606)**	**207,998**	**95,391**
Transfers to/from Earmarked Reserves (Note 11 & 12)	54,663	(54,136)	786	(1,312)	-	**-**	-	**-**	-
Other Movements	(96)					2,085	1,989	**(4,008)**	(2,019)
(Increase)/Decrease in Year	**5,456**	**(54,136)**	**786**	**(1,312)**	**1,222**	**(62,633)**	**(110,617)**	**203,990**	**93,372**
Balance at 31st March 2012 Carried Forward	**(36,470)**	**(239,951)**	**(2,930)**	**(13,104)**	**(22,922)**	**(121,295)**	**(436,671)**	**(592,810)**	**(1,029,481)**

2010/11 Comparative Year

	County Fund	Earmarked Revenue Reserves	Trading Reserve	Capital Funding Reserves	Usable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total unusable Reserves Restated (note 8)	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1st April 2010	(56,844)	(135,139)	(2,234)	(9,854)	(21,248)	(56,537)	(281,856)	(424,453)	**(706,309)**
Movement in Reserves During 2010/11									
(Surplus)/Deficit on provision of services	(128,034)	-	-	-	-	-	(128,034)	-	**(128,034)**
Other Comprehensive Income and Expenditure (Note 10)	-	-	-	-	-	-	-	(297,648)	**(297,648)**
Total Comprehensive Income and Expenditure	(128,034)	-	-	-	-	-	(128,034)	(297,648)	**(425,682)**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 9)	88,790	-	-	-	(2,896)	(2,125)	83,769	(83,769)	**-**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(39,244)	-	-	-	(2,896)	(2,125)	(44,265)	(381,417)	**(425,682)**
Transfers to/from Earmarked Reserves (Note 11 and 12)	54,094	(50,676)	(1,481)	(1,937)	-	-	-	-	**-**
Other Movements	69	-	-	-	-	-	69	9,070	**9,139**
(Increase)/Decrease in Year	14,919	(50,676)	(1,481)	(1,937)	(2,896)	(2,125)	(44,196)	(372,347)	**(416,543)**
Balance at 31st March 2011 Carried Forward	(41,926)	(185,815)	(3,716)	(11,792)	(24,144)	(58,662)	(326,054)	(796,800)	(1,122,854)

Comprehensive Income and Expenditure Statement

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

	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net £000	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net £000
Cultural and Related Services	30,988	(6,438)	24,550	35,677	(6,777)	28,900
Environmental and Regulatory Services	70,193	(22,176)	48,017	106,028	(17,932)	88,096
Planning Services	6,690	(594)	6,096	8,415	(895)	7,520
Children's and Education Services	1,115,275	(961,144)	154,131	1,267,765	(1,030,660)	237,105
Highways and Transport Services	122,448	(15,659)	106,789	120,327	(24,016)	96,311
Adult Social Care	456,712	(136,027)	320,685	477,315	(124,518)	352,797
Central Services to the Public	6,027	(1,739)	4,288	6,924	(1,799)	5,125
Corporate and Democratic core	29,683	(9,413)	20,270	28,046	(13,784)	14,262
Non Distributed Costs*	60,359	(71,945)	(11,586)	23,002	(28,596)	(5,594)
NDC – Past Service Costs	(24)	-	(24)	(153,463)	-	(153,463)
Travellers' Sites	160	-	160	107	-	107
Cost of Services	**1,898,511**	**(1,225,135)**	**673,376**	**1,920,143**	**(1,248,977)**	**671,166**
Other Operating Income and Expenditure (Note 14)	106,860	-	106,860	22,000	-	22,000
Financing Investment Income and Expenditure (Note 15)	213,090	(167,555)	45,535	217,399	(132,661)	84,738
Taxation and Non Specific Grant Income (Note 16)	-	(896,045)	(896,045)	-	(905,938)	(905,938)
(Surplus) / Deficit for the year	**2,218,461**	**(2,288,735)**	**(70,274)**	**2,159,542**	**(2,287,576)**	**(128,034)**
Revaluation Gains			(16,151)			(139,150)
Revaluation Losses (Chargeable to revaluation reserve)	-	-	6,417	-	-	20,093
(Surplus) or Deficit on revaluation of non-current assets	**-**	**-**	**(9,734)**	**-**	**-**	**(119,057)**
(Surplus) or deficit on revaluation of available for sale assets	-	-	(6,681)	-	-	7,160
Actuarial (gains)/losses on pension assets/liabilities	-	-	175,400	-	-	(178,590)
Other Comprehensive Income and Expenditure	-	-	4,661	-	-	1,978
Total Comprehensive Income and Expenditure (Gain) / Loss	**-**	**-**	**93,372**	**-**	**-**	**(416,543)**

***Non Distributed Costs- See Note 63- Lancashire County Council's Interests in other organisations- One Connect Limited**

Balance sheet

The balance sheet shows the value as at the Balance Sheet date of assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services (unusable reserves). This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31st March 2011 Restated £000		Notes	31st March 2012 £000
2,427,754	Property Plant and Equipment	35	2,647,698
28,400	Heritage Assets	34	28,400
5,451	Investment Property	36	5,482
1,613	Intangible Fixed Assets	37	11,854
276,088	Long Term Investments	38	235,679
47,900	Long Term Debtors	55	45,227
3,263	Deferred Consideration	56	-
2,790,469	**Long Term Assets**		**2,974,340**
-			-
169,371	Short Term Investments	38	328,552
3,565	Inventories (Stocks and WIP)	45	3,226
94,990	Short Term Debtors	46	85,774
3,693	Payments in Advance	49	4,439
71,356	Cash and Cash Equivalents	48	47,896
2,365	Assets Held for Sale	52	1,901
345,340	**Current Assets**		**471,788**
-			-
(355,609)	Short Term Borrowing Payable Within 12 Months	38	(358,812)
(189,134)	Short Term Creditors	47	(186,488)
(31,514)	Receipts in Advance	50	(22,510)
(14,507)	Short Term Provisions	51	(7,002)
(590,763)	**Current Liabilities**		**(574,812)**
-			-
(29,058)	Long Term Provisions	51	(28,496)
(627,112)	Long Term Borrowing	38	(873,355)
(766,022)	Other Long Term Liabilities	38, 57, 66	(939,984)
(1,422,192)	**Long Term Liabilities**		**(1,841,835)**
1,122,854	**Net Assets**		**1,029,482**

(326,054)	Usable Reserves	9, 11	(436,671)
(796,800)	Unusable Reserves	54	(592,811)
(1,122,854)	**Total Reserves**		**(1,029,482)**

*Note - the actual Movement in Reserves Statement also provides details of the movements in the Usable Reserves.

Cash flow statement

2010/11 restated £000		Note	2011/12 £000
(128,034)	Net (surplus) or deficit on the provision of services	58	(70,275)
(432,202)	Adjustment to surplus or deficit on the provision of services for non cash movements	58	(119,411)
586,079	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	58	(2,547,210)
25,843	**Net Cash flows from Operating activities**	58	**(2,736,896)**
291,029	Net Cash flows from Investing Activities	60	2,761,122
(143,708)	Net Cash flows from Financing Activities	61	(766)
173,164	**Net increase or decrease in cash and cash equivalents**		**23,460**
(244,520)	Cash and cash equivalents at the beginning of the reporting period	62	(71,356)
(71,356)	**Cash and cash equivalents at the end of the reporting period**	62	**(47,896)**

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the authority at 31 March 2012 and its income and expenditure for the year then ended.

These financial statements replace the unaudited financial statements authorised by the Treasurer on 28 June 2012

Gill Kilpatrick CPFA
County Treasurer
26 September 2012

County Councillor Sam Chapman
Chairman, Audit Committee
26 September 2012

Notes to the financial statements

General Notes

1. Statement of Accounting Policies

1. General

The Statement of Accounts summarises the council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

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

2. Accruals of income and expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.

- 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.

- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.

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

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept. Estimated debtors and creditors have only been included if they are material, which is defined as:

  - £1,000 or more for primary schools, nursery schools and pupil referral units; and
  - £5,000 or more for secondary schools and all other council services.

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

3. Cash and Cash Equivalents

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

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

4. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

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

5. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies (see the details in notes 11 and 12 to the accounts). Reserves are created by appropriating amounts out of the County Fund balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

6. Provisions

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

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

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

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled. Details of our provisions are given in note 51 to the accounts.

7. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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

8. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Measurement

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

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

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

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

Infrastructure, community assets and assets under construction – depreciated historical cost; although for certain community assets which were acquired years ago they are included at a notional amount of £1.

All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In such circumstances the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, plant, furniture and equipment – on a straight line generally over 10 years unless it is considered the life of the asset is less than 10 years.

- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.

- The asset will be reviewed and any part of the asset which can be identified as a self contained building will be subject to a separate valuation and asset life. This will ensure any part of the overall asset which is not of the same construction quality, has a specific use and/or economic life will be identified.

- For any building with a value above £2 million consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration any aspect of the construction, such as the roof, windows or any specialist items. For the purposes of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant.

- Any equipment which is a fixture of the building will be included within the overall assets valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

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

Disposals and Non-current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserve Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

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

9. Heritage Assets

The CIPFA Code of Practice for 2011/12 introduced separate accounting requirements for Heritage assets for the first time. This has required any asset that is held for their contribution to the knowledge or culture to be treated as a separate category. The Authority has valued these figures and the both the value at 31st March 2012 and a restated figure for 31st March 2011 are included.

The Council has a number of assets which are held and maintained principally for its contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage assets. These assets have been valued at fair value in accordance with the policy on Property, Plant and Equipment. Any acquisitions would initially be valued at cost if purchased or at a valuation if donated however there have been no significant acquisitions in the year.

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

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

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

10. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund balance (minimum revenue provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

11. Fixed assets not owned by the council

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

In total, £493 m of fixed assets not owned by us are included in the balance sheet.

12. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserve from the County Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

13. Investment Property

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

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

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

14. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

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

Where CIPFA's Service Reporting Code of Practice requires support services to be recharged, this has been done on the following bases:

- The cost of administrative offices is based on the floor area occupied by each service.
- The Information Services Group's charges are allocated wherever possible on output measures. This means that creditor payment costs are allocated as a charge per invoice, payroll administration costs are based on charges per payslip, and the central computer's costs are based on machine usage, and so on.
- The Finance Group's charges for accountancy and auditing are based on staff time.
- The Property Service Group's costs are allocated on several bases in line with commercial practice, for example linked to professional fee scales and relevant discounts.
- The Legal Services Group's charges are based on staff time, whilst the Corporate Personnel Group's costs are based on staff numbers.
- Costs defined under the Service Reporting Code of Practice as falling within corporate and democratic core services and central overheads cannot be apportioned (for example, member services) are charged to a separate account.

15. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the (FIFO/weighted average) costing formula.

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

16. Government Grants and Contributions

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

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

17. Leases

Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council does not hold any finance leases.

The Council as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as a Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item or plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiation and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. Employee Benefits

Benefits Payable during Employment

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the continuing operations costs in the Comprehensive Income and Expenditure Statement, when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Pension Arrangements

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

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

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

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

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

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

Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.9%; this was based on a weighted average of "spot yields" on AA rated corporate bonds.

- The assets of the Local Government Pension Fund attributable to the council are included in the balance sheet at their fair value:

- Quoted securities – current bid price;

- Unquoted securities – professional estimate;

- Unitised securities – current bid price; and

- Property – market value.

- The change in the net pensions liability is analysed into seven components:

  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Non Distributed Costs.

  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.

  - Contributions paid to the Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary benefits

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

19. Private Finance Initiatives (PFI)

Current Status of PFI Projects

The PFI arrangement for Fleetwood Sports College (formerly known as Fleetwood High School) is a continuing commitment for 25 years from September 2002.

We have signed four separate PFI contracts for different phases of the Building Schools for the Future initiative. The schools opened between September 2008 and September 2010. Each contract will run for 25 years from the opening date. Payments to the PFI contractor begin when the schools open.

Revenue transactions and balance sheet entries relating to the above schemes are explained in note 29.

We have also signed a PFI contract with Global Renewables Lancashire (GRL) Limited for waste treatment facilities in Leyland and Thornton. The facilities will receive and process "green" garden and kitchen waste, "recyclable" waste such as paper, glass, aluminium cans and textiles, and "black bag" rubbish from households in Lancashire and Blackpool. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The project started service commencement in 2011/12.

Accounting for PFI

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment. For the BSF Schemes the liability was written down by an initial capital contribution of £10.5 million (phase 1) and £1.609 million (phase 2a).

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge which varies for each scheme but lies in the range of 8.03% to 11.24% on the outstanding Balance Sheet liability, debited to the

Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Recognition of assets and liabilities

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

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

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

Prepayments

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

Minimum Revenue Provision (MRP)

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

Development Costs

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

Deductions from the Unitary Payment

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

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

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

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

20. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

21. Financial Assets

Financial assets are classified into three types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

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

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

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

Changes in fair value (other than impairment losses) are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

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

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

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

Fair Value through Profit and Loss

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

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

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

22. Landfill Allowance Trading Scheme

The Landfill Allowance Trading Scheme began on 1 April 2005 and is due to cease at 31 March 2013. Each year we are given permits to landfill a certain amount of biodegradable waste.

Landfill allowances, whether allocated by the department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

If we do not use our full allowance for the year, we can carry it forward to the next year. Unused allowances carried forward at the end of the year are included in current assets. They are valued at net realisable value.

23. Group Accounts

In previous years we have prepared a set of group accounts, but this was reviewed in 2006/07 and a set of group accounts was not prepared.

We have reviewed the position for 2011/12 and again, this year’s statement of accounts does not include a set of group accounts due to the following factors:

- The relative lack of materiality of the financial size of the group members compared with the County Council.

- The low level of financial risk to the County Council from its involvement with the group members: for example many group members are companies limited by guarantee, with the County Council's guarantee sum being £1.

- The very low level of involvement of the group members in delivering the council's statutory or significant core services.

The statement of accounts does include, at note 63, a full description of the fifteen organisations within the group boundary, the percentage of voting rights controlled by the council for each group member, and the nature of the council's relationship with them. The note also includes financial information in respect of the profit or loss before tax, turnover, and net assets or liabilities for each group member.

24. Council Tax Agency Arrangements

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

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

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

Lancashire County Council is a major preceptor with 12 district and 2 unitary billing authorities.

Up to 2008/09 the SORP required the Council Tax income included in the Comprehensive Income and Expenditure Account to be the amount that, under regulation, was required to be paid from the Collection Funds to the major preceptors. From the year commencing 1 April 2009, for both billing authorities and major preceptors the Council Tax income included in the Comprehensive Income and Expenditure Account for the year is required to be the accrued income for the year.

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

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

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

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

- An attributable share of council tax debtors, net of impairment allowances for doubtful debts;
- An attributable share of creditors for overpaid council tax; and
- A debtor for the billing authorities for cash collected from council tax payers but not paid across, or a creditor for cash paid in advance from council tax payers.

25. Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

26. Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts (see note 64).

27. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council (see note 65).

28. Value Added Tax (VAT)

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

29. Construction Contracts

Construction contracts are those contracts which the Council is undertaking on behalf of its customers, specifically negotiated for the construction of an asset.

The Council has 98 construction contracts in operation relating to Section 278 agreements in which work is carried out on the existing adopted highway for the benefit of a third party, which is usually funded by the third party (e.g. a new supermarket). The full disclosure details are shown in note 44.

2. Prior Period Adjustments

The Code of Practice 2011-12, introduced a change in the treatment in accounting for heritage assets held by the Authority. As reflected in the accounting policies these assets are now required to be carried in the Balance Sheet at valuation.

Previously the Heritage assets were not held in the Balance Sheet as it was not possible to ascertain detailed cost information on all of the assets.

In applying the new accounting policy the Authority has identified assets to the value of £28.4m which are now held as heritage assets with a corresponding increase in the Revaluation Reserve.

There have been no material purchases or impairment of these assets in the past two years and the nature of the assets is such that they are not subject to depreciation therefore in re-stating the Balance Sheet at 1 April 2010 and 31 March 2011 the Heritage assets have been included at £28.4m.

Subsequently there has been no restatement of the Comprehensive Income and Expenditure accounts. The Movement in Reserves Statement was restated to reflect the increase in the Revaluation Reserve from 1 April 2010.

3. Critical judgements in applying accounting policies

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

The critical judgements made in the Statement of Accounts are:

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

- The authority is deemed to control the services provided under the Private Finance Initiative (PFI) agreement for 12 schools, one library and a faith centre and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings (valued at £462 million) are recognised as Property, Plant and Equipment on the authority's balance sheet.

- The authority has to decide whether land and buildings owned by the authority are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the authority does hold investment properties which have been valued at £5.5 million as at 31 March 2012.

- The authority has to determine whether the leases it enters should be classified as operating or finance leases. The authority must also consider whether contractual arrangements it enters into have the substance of a lease.

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

- The authority has to determine whether there is a group relationship between the authority and other entities. The accountants have assessed each relationship that exists between the authority and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The authority's relationships with other entities can been found in note 63. We have reviewed the position for the 2011/12 accounts and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

  (a) The relative lack of materiality of the financial size of the group members compared with that of the council.

  (b) The low level of financial risk to the County Council from its involvement with the group members: for example many group members are companies limited by guarantee, the County Council's guarantee sum being £1.

  (c) The very low level of involvement of the group members in delivering the council's statutory or significant core services.

- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the authority's Balance Sheet. The valuations are undertaken by in-house qualified staffs that follow best practice. In addition to valuations which are undertaken in year the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2012. It was not considered that there was any such need in 2011/12.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy as a result of amendments to IFRS 7 – Financial Instruments Disclosures (transfer of financial assets), issued in October 2010.

The amendments are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

The Council is not currently party to any such arrangements and it is therefore not expected to have any impact on the 2012/13 financial statements.

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

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

The items in the authority's balance sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2012, the authority had a balance of sundry debtors for £36.2 million. A review of significant balances suggested that an impairment of doubtful debts of 22.1% was appropriate. However in the current economic climate it is not certain that such an allowance would be sufficient	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £8.01 million to be set aside as an allowance.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £216.125 million
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the value. Due to changes in Economic conditions a valuation taken on a different date could potentially result in a different valuation	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE

6. Levies paid to other public bodies

	2011/12 £000	2010/11 £000
Environment Agency – Flood Defence	606	610
Sea Fisheries Committee	382	180
Total	**988**	**790**

7. Statutory charge for the repayment of debt

Our accounts must include a charge for the repayment of debt. This charge must be at least 4% of our adjusted capital financing requirements at the start of the year. For 2011/12 this charge is £26.193 million (£24.151 million in 2010/11).

£26.081 million of this is shown within the Comprehensive Income and Expenditure Account. Blackpool Council pay a contribution towards the capital financing charges related to the Waste PFI site, which in 2011/12 is £112,000 (£165,000 in 2010/11). This is deducted from the MRP figure in the Comprehensive Income and Expenditure Account.

As shown in note 9 below, capital charges in the income and expenditure account (depreciation, impairment, amortisation and revenue expenditure funded from capital under statute) are reversed or cancelled out and replaced by this statutory charge.

Notes to the Movement in Reserves Statement

8. Unusable Reserves Movement

<u>2011/12</u>

	Revaluation Reserve	Available for Sale Financial Instruments	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserves	Collection Fund Adjustment Account	Accumulated Absences Account	**Total unusable Reserves**
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1st April 2011	(769,550)	7,160	(861,965)	25,622	765,212	(1,170)	37,890	(796,800)
<u>Movement in Reserves During 2011/12</u>								-
(Surplus) or deficit on provision of services	-	-	-	-	-	-	-	-
Other Comprehensive Expenditure and Income	(9,734)	-	-	-	175,400	-	-	165,666
Total Comprehensive Expenditure and Income	**(9,734)**	**-**	**-**	**-**	**175,400**	**-**	**-**	**165,666**
Adjustments Between Accounting Basis & Funding Basis Under Regulations	60,616	-	(6,303)	(2,056)	(1,117)	(351)	(8,458)	**42,332**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**50,882**	**-**	**(6,303)**	**(2,056)**	**174,283**	**(351)**	**(8,458)**	**207,998**
<u>Transfers to/from Earmarked Reserves</u>								**-**
Other Movements		(6,681)	2,673	-	-	-	-	**(4,008)**
Increase/(Decrease) in Year	**50,882**	**(6,681)**	**(3,630)**	**(2,056)**	**174,283**	**(351)**	**(8,458)**	**203,990**
Balance at 31st March 2012 Carried Forward	**(718,667)**	**479**	**(865,595)**	**23,566**	**939,496**	**(1,520)**	**29,432**	**(592,810)**

2010/11

Revaluation Reserve restated for Heritage Assets

	Revaluation Reserve	Available for Sale Financial Instruments	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserves	Collection Fund Adjustment Account	Accumulated Absences Account	Total unusable Reserves
Balance at 1 April 2010	**669,184**	**-**	**863,391**	**83**	**(1,059,958)**	**(1,255)**	**(46,992)**	**424,453**
								-
Movement in Reserves During 2010/11								-
								-
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-
Other Comprehensive Expenditure and Income	119,058	-	-	-	178,590	-	-	297,648
Total Comprehensive Expenditure and Income	119,058	-	-	-	178,590	-	-	297,648
								-
Adjustments Between Accounting Basis & Funding Basis Under Regulations	(18,692)	-	1,880	(27,101)	116,156	2,425	9,101	83,769
								-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**100,366**	**-**	**1,880**	**(27,101)**	**294,746**	**2,425**	**9,101**	**381,416**

								-
Transfers to/from Earmarked Reserves		-	-	-	-	-	-	-
								-
Other Movements		(7,160)	(3,306)	1,396	-	-	-	(9,070)
								-
Increase/(Decrease) in Year	**100,366**	**(7,160)**	**(1,426)**	**(25,705)**	**294,746**	**2,425**	**9,101**	**372,346**
		-						
Balance at 31 March 2011 Carried Forward	**769,550**	**(7,160)**	**861,965**	**(25,622)**	**(765,212)**	**1,170**	**(37,890)**	**796,800**

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9. Adjustments between Funding Basis and Regulation

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

<u>**2011/12 Adjustments**</u>

	Useable Reserves £000			Unusable Reserves £000			
	General Fund	Useable Capital Receipts	Capital Grants Unapplied	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserves	Other Reserves
Adjustments between accounting basis & funding basis under regulations-Analysis							
Adjustments involving the Capital Adjustment Account ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:***							
Charges for depreciation of non current assets	(43,455)	-	-	43,455	-	-	-
Charges for Impairment of Non Current Assets	-	-	-	-	-	-	-
Revaluation losses on Property Plant and Equipment (*charged to SDPS*)	(16,484)	-	-	16,484	-	-	-
Movements in the market value of Investment Properties	37		-	(37)	-	-	
Amortisation of intangible assets	-	-	-	-	-	-	-
Capital grants and contributions applied	-	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	(11,293)	-	-	11,293	-	-	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(106,074)	(883)	-	106,956	-	-	-
Revenue Contribution to Finance Capital Outlay	15,748	-	-	(15,748)	-	-	-
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment (MRP)	26,193	-	-	(26,193)	-	-	-
Statutory provision for the financing of finance lease liabilities (MRP)	-	-	-	-	-	-	-

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Statutory provision for the financing of capital investment (MRP PFI)	17,945	-	-	(17,945)	-	-	-
Capital expenditure charged against the General Fund and HRA balances	-	-	-	-	-	-	-
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES	95,182	-	(95,182)	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	31,383	-	30,464	(61,847)	-	-	-
Adjustments involving the Capital Receipts Reserve:							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	-	-	-	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure		2,105	-	(2,105)	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	-	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	-	-	-	-	-
Adjustment involving the Major Repairs Reserve							
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	-	-
Adjustments involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2,056	-	-	-	(2,056)	-	-
Adjustments involving the Pensions Reserve:							
Employer's pensions contributions and direct payments to pensioners payable in the year	81,002	-	-	-	-	(81,002)	-
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(79,885)	-	-	-	-	79,885	-
Adjustments involving the Collection Fund Adjustment Account:							
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	351	-	-	-	-	-	(351)
Adjustment involving the Unequal Pay Back Pay Adjustment Account:							-

Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
Adjustment involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8,458	-	-	-	-	-	(8,458)
Other adjustments include							-
Adjustment between the Capital Adjustment Account and the Revaluation Reserve							-
Adjustments between RR and CAA for depreciation that is related to the revaluation balance rather than Historic Cost. (current cost depreciation)	-	-	-	(7,396)	-	-	7,396
Write out RR Balances re Academies	-	-	-	(53,224)	-	-	53,224
Reclassification of Balances on RR	-	-	-	4	-	-	(4)
Reverse write down RR							-
	21,164	**1,222**	**(64,718)**	**(6,303)**	**(2,056)**	**(1,117)**	**51,808**

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2010/11 Comparative Year Adjustments Re-stated

	Useable Reserves £000			Unusable Reserves £000			
	County fund	Capital Receipts Reserve	Capital Grants Unapplied	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Other Unusable Reserves
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive I&E:							
Charges for depreciation and impairment of Non Current Assets	37,985	-	-	(37,985)	-	-	-
Revaluation losses on Property, Plant & Equipment	65,817	-	-	(65,817)	-	-	-
Movements in the market value of Investment property	(52)	-	-	52	-	-	-
Amortisation of Intangible Assets	-	-	-	-	-	-	-
Capital Grants & Contributions Applied	-	-	-	-	-	-	-
Revenue Contribution to Finance Capital Outlay	(2,893)	-	-	2,893	-	-	-
Revenue Expenditure Funded from Capital Under Statute	18,290	-	-	(18,290)	-	-	-
Amounts of NCAs written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E	34,507	(10,380)	-	(23,114)	-	-	(1,014)
Insertion of items not debited or credited to the Comprehensive I&E:							
Statutory provision for the financing of capital investment (MRP)	(24,151)	-	-	24,151	-	-	-
Statutory provision for the financing of capital investment (MRP PFI)	(4,329)	-	-	4,329	-	-	-
Adjustments primarily involving the Capital Grants Unapplied Account:							

Capital grants and contributions unapplied credited to the Comprehensive I&E	(100,107)	-	2,125	97,982	-	-	-
Application of grants to capital financing transferred to CAA	-	-	-	-	-	-	-
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	(13,275)	13,275	-	-	-	-	-
Use of CRR to finance new capital expenditure	-	-	-	-	-	-	-
Contribution from the CRR towards administrative costs of NCA disposals	-	-	-	-	-	-	-
Contribution from the CRR to finance the payments to the Government capital receipts pool	-	-	-	-	-	-	-
Transfer from Deferred CRR upon receipt of cash	-	-	-	-	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	-	-	-	-	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements	27,101	-	-	-	(27,101)	-	-
Adjustments primarily involving the Pensions Reserve							
Reversal of items related to retirement benefits debited or credited to the Comprehensive I&E (see note 67)	(29,682)	-	-	-	-	29,682	-
Employers pensions contributions and direct payments to pensioners payable in the year	(86,474)	-	-	-	-	86,474	-
-							
Adjustments primarily involving the Collection Fund Adjustment							

Account:							
Amount by which Council Tax income credited to the I&E is different from Council Tax income calculated for the year in accordance with statutory requirements	(2,425)	-	-	-	-	-	2,425
Adjustments primarily involving the Accumulated Absences Account:							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(9,101)	-	-	-	-	-	9,101
Other Adjustments Include:							
Revaluation Reserve:							
Adjustments between RR and CAA for depreciation that is related to the revaluation balance rather than Historic Cost. (current cost depreciation)	-	-	-	7,753	-	-	(7,753)
Write out RR re: academies	-	-	-	9,636	-	-	(9,636)
Reclassification of Balances on RR	-	-	-	288	-	-	(288)
Total Adjustments	**(88,790)**	**2,896**	**2,125**	**1,880**	**(27,101)**	**116,156**	**(7,165)**

** The significant variance on the amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements relates to the net of premiums and discounts removed from the Comprehensive Income and Expenditure Statement to be amortised over the lifetime of the repaid loans in accordance with current accounting standards. In addition amounts previously adjusted in the Comprehensive Income and Expenditure Statement for Icelandic investment impairment has been reversed following the expiry of the regulation which allowed for this adjustment.

10. Other Comprehensive Income and Expenditure

	2011/12 £000	2010/11 £000
Actuarial (Gains)/ Losses on Retirement Benefits	(175,400)	(178,590)
Unrealised Revaluation Gains	16,151	(139,150)
Revaluation Losses Charged to Revaluation Reserve	(5,257)	20,093
Valuation written out	(1,160)	-

11. Transfers to/from Earmarked Reserves

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This note sets out the amounts set aside from the County fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet County fund expenditure in 2011/12.

	COMPARATIVE YEAR 2010/11				2011-12			
Revenue Reserves	**OPENING BALANCE**	**Net Contributions to and from Reserves (use of reserves)**	**Transfers between Reserves**	**CLOSING BALANCE**	**OPENING BALANCE**	**Net Contributions to and from Reserves (use of reserves)**	**Transfers between Reserves**	**CLOSING BALANCE**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Strategic Investment Reserve	-	-	-	-	-	(1,000)	60,000	59,000
Schools Reserves	42,826	8,266	65	51,157	51,157	2,781	20	53,958
Service Transformation Reserve	-	3,600	30,501	34,101	34,101	(13,190)	(2,244)	18,667
Schools DSG Central Items	4,698	2,393	(1,000)	6,090	6,090	7,733	2,689	16,512

DFM Balances	26,420	(16,570)	7,145	16,995	16,995	7,028	(12,020)	12,004
Restructure Reserve	-	-	20,000	20,000	20,000	-	(8,733)	11,267
Other Revenue Reserves	61,196	16,201	(19,926)	57,471	57,471	(12,689)	23,761	68,542
Trading Operations Reserves	2,234	1,481	-	3,716	3,716	(546)	(239)	2,930
Capital Funding Reserves	9,854	1,727	210	11,792	11,792	2,121	(809)	13,104
County Fund	56,844	22,077	(36,995)	41,926	41,926	56,969	(62,425)	36,469

12. Revenue reserves

Under the Local Government (Miscellaneous Provisions) Act 1976, we can hold reserves to help us introduce policies in the future. Details of these reserves at 31 March 2012 are set out below.

	£000
Strategic Investment Reserve The Council agreed a programme of investment in areas including the provision of Residential and Respite Care, Economic development, Libraries regeneration, further development of Youth Zones, increasing employment opportunities and the development of Apprenticeship programmes. The Strategic Investment Reserve will deliver the funding for this investment.	**59,000**
Schools Reserves Under the Education Reform Act, schools are given most of their budgets to control. If a school does not spend its entire budget, we hold it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.	**53,958**
DFM Balances These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates.	**12,004**
Service Transformation Reserve This reserve consists of amounts set aside for upfront investment that will enable ongoing improvement in efficiency and deliver future savings.	**18,667**
Schools DSG Central Items This is the amount carried forward from the schools budget for central items, to be used in support of the Schools Budget in future years	**16,512**
Restructure Reserve This reserve has been set up to provide for future costs that will arise from the restructuring of the organisation	**11,267**
Other Revenue Reserves We have a number of other reserves held for future policy purposes or to cover contingencies, including adult social care transition and early intervention, children's social care, buildings repair and maintenance and business rate volatility.	**68,542**
Total Revenue Reserves	**239,951**

13. Material items of income and expenditure

The guidance requires that where items are not disclosed on the face of the Comprehensive I&E statement, the nature and amount of material items should be set in a note. In 2011/12 there were no material items of income and expenditure for Lancashire County Council which have not been disclosed on the face of the Comprehensive I&E.

14. Other Operating Expenditure

	2011/12	2010/11
	£000	£000
Levies	786	790
(Gains)/losses on the disposal of non current assets	106,074	21,210
Total	**106,860**	**22,000**

15. Financing and Investment Income and Expenditure

	2011/12	2010/11
	£000	£000
Interest payable on debt	16,987	18,907
Interest payable on PFI unitary payments	55,523	14,452
Payment on early repayment of debt	-	30,115
Impairment of Financial instruments	-	977
Expected return on pension assets	23,200	45,432
Investment interest income	(47,459)	(17,777)
Discount on early repayment of debt	-	(452)
Changes in fair value of investment properties	(37)	52
Gain/loss on trading accounts (not applicable to services)	(2,680)	(6,967)

Total	**45,535**	**84,739**

16. Taxation and Non Specific Grants Incomes

	2011/12 £000	2010/11 £000
Council Tax Income	(425,179)	(424,878)
Non Domestic Rates	(254,894)	(263,797)
Revenue Support Grant	(78,789)	(38,306)
Non Service related Government Grants	-	(78,784)
Council Tax Freeze Grant	(10,618)	-
Recognised Capital grants and contributions	(126,565)	(100,173)
Total	**(896,045)**	**(905,938)**

17. Amounts Reported for Resource Allocation Decisions

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

The income and expenditure of the authority's principal Directorates recorded in the budget reports for the year is as follows:

Year Ended 31 March 2012

2011/12	**Adult & Community Services £000**	**Children & Young People £000**	**Environment £000**	**Other Directorates £000**	**Total**
Fees, charges & other service income	76,575	58,412	30,122	98,917	264,026
Government grants	76,244	876,510	7,571	505	960,830
Total Income	152,819	934,922	37,693	99,422	1,224,856
Employee expenses	101,611	690,072	26,603	59,276	877,562
Other service expenses	380,067	377,912	164,055	79,216	1,001,250
Support service recharges	16,446	15,144	5,633	-13,896	23,327
Total Expenditure	498,124	1,083,128	196,290	124,596	1,902,139
Net Expenditure	**345,305**	**148,206**	**158,597**	**25,175**	**677,283**

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

	£000s
Cost of Services in Service Analysis	**677,283**
Add services not included in main analysis	(34)
Add amounts not reported to management	(3,872)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
Net Cost of Services in Comprehensive Income and Expenditure Statement	**673,377**

2011/12	**Directorate Analysis**	**Services & Support**	**Amounts reported to management for decision making**	**Amounts not included in the I&E**	**Allocation of Recharges**	**Cost of Services**	**Corporate Amounts**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges and other service income	291,214	-	7,508	(2,946)	(32,102)	263,674	6,874	270,548
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-		-
interest and investment income	-	-	-	-	-	-	160,681	160,681
Income from council tax	-	-	-	-	-	-	425,179	425,179
Government grants and contributions	961,474	-	-	-	(14)	961,460	470,866	1,432,326
Total Income	1,252,688	-	7,508	(2,946)	(32,116)	1,225,134	1,063,601	2,288,734
Employee Expenses	876,629		28,878		(27,478)	878,029		878,029
Other operating expenses	970,432	-		(9,214)	(25,392)	935,826	4,158	939,984
Support service recharges	(5,358)			1	24,535	19,178		19,178
Depreciation, amortisation and impairment			1,346	65,451	(1,321)	65,476	-	65,476
Interest Payments	-	-	-	-	-	-	72,512	72,512
Precepts and levies	-	-	-	-	-	-	137,207	137,207
Payment to Housing Capital receipts pool	-	-	-	-	-	-		-
Gain or loss on Disposal of Fixed Assets	-	-	-	-	-	-	106,074	106,074
Total Expenditure	1,841,703	-	30,224	56,238	(29,656)	1,898,509	319,950	2,218,460
Surplus or Deficit on the provision of services	589,016	-	22,716	59,184	2,460	673,376	(743,651)	(70,275)

Year Ended 31 March 2011

2010/11	ADULT & COMMUNITY SERVICES £000	CHILDREN & YOUNG PEOPLE £000	Environment £000	Other Directorates £000	Total £000
Fees, charges & other service income	75,928	77,862	34,514	47,385	**235,689**
Government grants	67,027	934,825	7,290	4,646	**1,013,788**
Total Income	142,955	1,012,687	41,804	52,031	**1,249,477**
Employee expenses	113,658	755,823	32,883	35,608	**937,972**
Other service expenses	397,862	470,245	190,684	22,910	**1,081,701**
Support service recharges	13,422	13,188	7,769	9,155	**43,534**
Total Expenditure	524,942	1,239,256	231,336	67,673	**2,063,207**
Net Expenditure	**381,987**	**226,570**	**189,532**	**15,642**	**813,731**

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

	£000s
Cost of Services in Service Analysis	**813,731**
Add services not included in main analysis	2348
Add amounts not reported to management	(144,913)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
Net Cost of Services in Comprehensive Income and Expenditure Statement	**671,166**

2010/11	**Directorate Analysis**	**Services & Support**	**Amounts reported to management for decision making**	**Amounts not included in the I&E**	**Allocation of Recharges**	**Cost of Services**	**Corporate Amounts**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges and other service income	267,324	-	8,471	(6,795)	(33,241)	235,759	11,570	247,329
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-		-
interest and investment income	-	-	-	-	-	-	121,091	121,091
Income from council tax	-	-	-	-	-	-	424,878	424,878
Government grants and contributions	1,013,788	-	-	-	-	1,013,788	481,060	1,494,848

Total Income	1,281,112	-	8,471	(6,795)	(33,241)	1,249,547	1,038,598	2,288,146
Employee Expenses	964,439	(851)	26,339	-	(51,955)	937,972	-	937,972
Other operating expenses	1,008,540	-	-	(11,190)	(24,727)	972,622	4,151	976,774
Support service recharges	(7,823)	-	-	149	(93,697)	(101,371)	-	(101,371)
Depreciation, amortisation and impairment	-	-	-	111,195	-	111,195	1,029	112,224
Interest Payments	-	-	-	294	-	294	33,361	33,655
Precepts and levies	-	-	-	-	-	-	179,649	179,649
Payment to Housing Capital receipts pool	-	-	-	-	-	-	-	-
Gain or loss on Disposal of Fixed Assets	-	-	-	-	-	-	21,210	21,210
Total Expenditure	1,965,156	(851)	26,339	100,448	(170,379)	1,920,713	239,400	2,160,112
Surplus or Deficit on the provision of services	684,044	(851)	17,868	107,243	(137,138)	671,166	(799,199)	(128,034)

18. Grant Income

The authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2011/12

	2011/12 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Capital – Earmarked Grants		
Main Government Departments		
Primary Capital Programme	-	18,038
Building Schools for the Future	12,693	13,770
Formula Capital for Schools	2,771	8,296
Alder Grange Learning Centre	579	5,815
Sure Start	1,252	6,103
Co-Location Scheme	-	4,348
Extra Care Housing	-	3,663
Department for Transport - Earmarked Projects	563	5,647
Short Breaks for Disabled Children	675	-
Department for Communities and Local Government – Growing Places	19,379	-
Department for Education – Other Earmarked	-	11,485
Department for Health – Other Earmarked	-	1,100
Miscellaneous Other Government Grant	-	918
Other Local Authorities	538	1,091
Other Public Bodies	6,548	3,710
Private Sector	9,295	2,104
Miscellaneous - Various Other	501	1,317
Capital – Single Capital Pot		
Children's Schools and Families	39,347	-
Health	2,861	8,245
Transport	29,564	4,522
Total Credited to Recognised Grants and Contributions	126,565	100,173
Non Service Related Government Grants		
Communities	-	29,118
Children's Schools and Families	-	20,821
Health	-	21,735
Transport	-	5,332
Other	-	1,777
Total Non Service Related Government Grants	-	78,783
Credited to Services - All Services		
Revenue Grants		
Skills Funding Agency	7,789	8,337
Department of Health	474	2,884
Department for Education	829,304	844,157

Department for Communities and Local Government	28,712	24,995
Education Funding Agency (DfE)	19,277	64,156
Various Misc Grants	7,548	13,672
Contributions		
Primary Care Trusts	3,342	3,528
Department of Health	32,852	32,852
Various Misc Contributions	1,165	2,378
Total	**930,464**	**996,959**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows;

	2011/12 £000	**2010/11 £000**
Capital Grant Receipts in Advance	-	174
Revenue Grants and Contributions		
Department of Health	7,108	7,582
Department for Communities and Local Government	5,023	5,023
Skills Funding Agency	2,098	1,220
Homes and Community Agency	505	1,914
Other Grants	756	1,038
Contributions		
Private Works	294	6,890
Advance Payment Deposits	1,073	1,151
Contributions from Developers	1,303	1,401
Various Other Contributions	1,263	473
Total	**19,422**	**26,691**

19. Dedicated Schools Grant

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

This includes:

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

The table below shows how DSG was used for 2011/12:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2011/12 (amended for academies October 2011)	48,478	711,707	760,185
Brought forward from 2010/11	6,090	-	6,090
Carry forward to 2012/13 agreed in advance	-	-	-
Agreed budgeted distribution in 2011/12	54,568	711,707	766,275
In year adjustment	(38,056)		(38,056)
Final budget distribution for 2011/12	16,512	711,707	728,219
Actual Central expenditure	-	-	-
Actual ISB deployed to schools	-	(711,707)	(711,707)
Local Authority contribution for 2011/12	-	-	-
Carry forward to 2012/13	16,512	-	16,512

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

	2011/12 £000	2010/11 £000
Dedicated Schools Grant	711,707	620,341
Learning and Skills Council	19,501	26,019
School Standards Grant	-	36,848
Allocations from Central Items (Contingency, Schools in Difficulty etc)	5,454	2,152
	736,662	685,360
Less Individual Schools Budget total expenditure	(733,881)	(677,093)
Contributions to Individual School Balances	2,781	8,267

20. Council Tax

Each district council (the "billing authority") collects Council Tax on our behalf and pays it into their collection fund. We then levy a precept on those collection funds to raise the Council's council tax income. We also receive a share of any surplus or deficit in respect of previous year's council tax collections.

	2011/12	2010/11
	£'000's	£000's
Precept from district council collection funds	(426,349)	(423,623)
Collection fund (surplus)/losses	1,521	1,170
Budgeted council tax for the year paid by billing authorities	(424,828)	(422,453)
Billing authorities collection fund accruals	(351)	(2,425)
Total Council Tax income shown in the accounts	(425,179)	**(424,878)**

21. Publicity

Under section 5 of the Local Government Act 1986 we must declare separately our spending on publicity during the year. In 2011/12 we spent £1,754 million on publicity as set out below.

	2011/12 £000	2010/11 £000
Recruitment advertising	109	393
County information centres	40	39
Welfare rights	1,419	1,598
Other publicity, including corporate communications and information for Council Tax payers	186	595
	1,754	**2,625**

22. Local Authority (Goods and Services) Act 1970

Income and expenditure under this heading relates to arrangements entered into by local authorities that are authorised by section 1 of the Local Authority (Goods and Services) 1970 Act. The 1970 Act specifies the conditions under which authorities can enter into agreements to supply goods and services to each other and to other public bodies.

Purpose of work - i.e. one of the four purposes specified by the 1970 Act)	Related Income for 2011/12	Related Expenditure for 2011/12	Net Income/Expenditure for 2011/12	Related Income for 2010/11	Related Expenditure for 2010/11	Net Income/Expenditure for 2010/11
	£000	£000	£000	£000	£000	£000
Supply of goods or material	(0.477)	0.477	0.000	(1.037)	1.037	0.000
Provide administration, professional or technical services	(31.097)	29.287	(1.809)	(19.039)	18.222	(0.817)
Use of vehicle, plant or apparatus belonging to LCC	(0.022)	0.022	0.000	(0.001)	0.001	0.000
Lancs. County Council carrying out works of maintenance in connection with land or buildings	0.000	0.000	0.000	(0.151)	0.151	0.000
Total	(31.595)	29.786	(1.809)	(20.229)	19.411	(0.817)

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23. Agency Services

District Councils carry out work as the County Council's agents under the street services agreement with spending of £1.526 million as shown below:

	2010/11 £000	2010/11 £000
Expenditure incurred Routine Maintenance	1,462	1,083
Administrative Costs	64	92
Net Surplus/deficit on agency arrangement	1,526	1,175

24. Pooled budgets

Councils and primary care trusts (PCTs) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below:

Lancashire County Council and three PCT's (North Lancashire, East Lancashire & Central Lancashire) for the integrated commissioning of services for adults with Learning Disabilities

	2011/12		2010/11	
Funding provided to the Pooled Budget	£000	£000	£000	£000
The Authority	(105,869)		(110,009)	
The Trust	(9,440)		(12,924)	
Other	(9,515)		(10,132)	
		(124,824)		(133,065)
Expenditure met from the Pooled Budget				
The Authority	122,040		123,618	
The Trust	10,056		14,026	
		132,096		137,644
Net (Surplus)/Deficit arising on the Pooled Budget during the year:		7,272		4,579
Authority Share of the Net (Surplus)/Deficit:		6,820		4,147

Lancashire County Council and East Lancashire PCT for the integrated commissioning of services for adults with Mental Health

The County Council entered into the Partnership Agreement in April 2002. Under the current PCT structure, the Partners for the provision of an Active Rehabilitation Service and Supported Tenancy, are as above.

As at April 2011, six months notice was given by East Lancashire Primary Care Trust that the pooled funding arrangements would cease on 30 September 2011. The position for 11/12 is for the six months ending 30 September 2011

	2011/12		2010/11	
Funding provided to the Pooled Budget	£000	£000	£000	£000
The Authority	(143)		(465)	
The Trust	(144)		(426)	
		(287)		(891)
Expenditure met from the Pooled Budget				
The Authority	143		318	
The Trust	144		425	
		287		743
Net (Surplus)/Deficit arising on the Pooled Budget during the year:		-		(148)
Authority Share of the Net (Surplus)/Deficit:		-		147

25. External Audit costs

External audit fees were as follows:

	2011/12 £000	2010/11 £000
Fees payable to the Audit Commission with regards to external audit services carried out by the appointed auditor	231	308
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	26	21
Fees payable in respect other services provided by the Audit Commission during the year	-	-
	257	**329**

26. Members' Allowances

The authority paid the following amounts to members of the Council during the year

	2011/12	2010/11
	£000	£000
Basic Allowances	839	841
Special responsibility allowances	354	332
Expenses	97	100
Total	**1,290**	**1,273**

Details of the allowances paid can be found on the Council's website:

Go to our website address at www.lancashire.gov.uk

27. Senior Officers Remuneration

Disclosure of senior officers' remuneration 2011/12: Salaries over £150k

Post, title and Name	Notes	Salary (including fees and allowances	Expense allowance	Benefits in kind	Total remuneration excluding pension contributions 2011/12	Pension contributions	Total remuneration including pension contributions 2011/12
		£	£	£	£	£	£
Chief Executive - P Halsall	Note 1	194,790	69	5,300	200,159	38,615	238,774
Total		**194,790**	**69**	**5,300**	**200,159**	**38,615**	**238,774**

Note 1 - Benefits in kind relates to a cash equivalent sum in place of the entitlement to a lease car.

Disclosure of senior officers' remuneration 2010/11: Salaries over £150k

Post, title and Name	Notes	Salary (including fees and allowances)	Expense allowance	Benefits in kind	Total remuneration excluding pension contributions 2010/11	Pension contributions	Total remuneration including pension contributions 2010/11
		£	£	£	£	£	£
Chief Executive – G Fitzgerald	Note 1	165,756	413	9,374	175,543	29,505	205,048
Chief Executive – P Halsall	Note 2	32,966	48	898	33,911	6,866	40,778
Total		**198,722**	**461**	**10,272**	**209,455**	**36,371**	**245,826**

Note 1 – G Fitzgerald left the post of Chief Executive on 6th of February 2011. His annualised salary was £194,655.
Note 2 - P Halsall was appointed to the post of Chief Executive from 31st January 2011. His annualised salary was £194,655.
Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

Disclosure of senior officers' remuneration 2011/12: Remuneration £50k to £150k

Post, title and Name	Notes	Salary (including fees and allowances)	Expense allowance	Benefit in Kind	Total remuneration excluding pension contributions 2011/12	Pension contributions	Total remuneration including pension contributions 2011/12
		£	£	£	£	£	£
Executive Director for Children & Young People		129,201	79	7,415	136,695	25,614	162,309
Executive Director of Adults and Community Services		129,201	3	6,119	135,323	25,614	160,938
County Secretary & Solicitors		129,201	35	5,595	134,831	25,614	160,446
Executive Director for the Environment		126,624	-	5,300	131,924	25,103	157,027
County Treasurer		106,673	-	5,300	111,973	16,319	128,292
Total		620,900	118	29,729	650,748	118,264	769,012

Note 1 - Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

Disclosure of senior officers' remuneration 2010/11: Remuneration £50k to £150k

Post, title and Name	Notes	Salary (including fees and allowances)	Expense allowance	Benefit in Kind	Total remuneration excluding pension contributions 2010/11	Pension contributions	Total remuneration including pension contributions 2010/11
		£	£	£	£	£	£
Executive Director for Children & Young People		129,201	1,664	7,099	137,964	22,998	160,961
Executive Director of Adults and Community Services		129,201	314	5,811	135,326	22,998	158,324
County Secretary & Solicitors		129,201	249	5,595	135,045	22,998	158,043
Executive Director for the Environment		124,044	8	5,300	129,352	22,080	151,432
County Treasurer	Note 1	17,547	-	883	18,430	3,099	21,529
Total		**529,194**	**2,235**	**24,688**	**556,117**	**94,172**	**650,289**

Note 1 - The post of County Treasurer was established on 31 January 2011 on an annualised salary of £90,524.35. The County Treasurer's position has taken on the responsibilities of Section 151 duties from the disestablished Executive Director of Resources role.

Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

We employ around 40,000 permanent members of staff. The table below shows the numbers of employees earning a total remuneration of £50,000 to £150,000 (not including pension contributions).

The senior employees listed in the tables above have not been included in the Number of Employees tables shown below for both 2011/12 and 2010/11.

This table shows the number of employees employed by Lancashire County Council split between Teaching staff, non-teaching staff and those seconded to One Connect Limited. Teaching staff and staff seconded to One Connect Limited have their salaries determined outside the control of Lancashire County Council.

Number of Employees – 2011/12

Remuneration Band (£)	LCC Non teaching staff	OneConnect Ltd	Teaching staff
50,000 - 54,999	76	8	327
55,000 - 59,999	52	5	209
60,000 - 64,999	44	5	73
65,000 - 69,999	22	-	40
70,000 - 74,999	9	-	28
75,000 - 79,999	1	1	15
80,000 - 84,999	4	-	9
85,000 – 89,999	1	1	9
90,000 - 94,999	7	-	8
95,000 - 99,999	9	-	3
100,000 - 104,999	3	1	-
105,000 - 109,999	-	-	3
110,000 - 114,999	-	-	-
115,000 - 119,999	1	-	-
120,000 - 124,999	-	-	-
125,000 - 129,999	-	-	-
130,000 - 134,999	-	-	-
135,000 - 139,999	-	-	-
140,000 - 144,999	-	-	-
145,000 - 149,999	1	-	-
150,000 - 154,999	-	-	-
155,000 - 159,999	-	-	-
TOTALS	**230**	**21**	**724**

The number of staff in receipt of a redundancy payment in the table above is broken down as follows:

Remuneration Band (£)	LCC Non teaching staff	OneConnect Ltd	Teaching staff
£50,000 - £54,999	10	-	-
£55,000 - £59,999	11	-	-
£60,000 - £64,999	3	1	
£65,000 - £69,999	4	-	-
£70,000 - £74,999	2	-	-
£75,000 - £79,999	1	-	-
£85,000 - £89,999	1	-	-
£90,000 - £94,999	2	-	-
£145,000 - £149,999	1	-	-
Total	**35**	**1**	**0**

The number of staff in receipt of a redundancy payment in the table above is broken down as follows

Number of Employees – 2010/11

Remuneration Band (£)	Non teaching staff	OneConnect ltd	Teaching staff
50,000 - 54,999	113	9	352
55,000 - 59,999	73	5	187
60,000 - 64,999	52	2	88
65,000 - 69,999	27	-	41
70,000 - 74,999	16	-	25
75,000 - 79,999	13	-	22
80,000 - 84,999	5	1	12
85,000 – 89,999	4	-	11
90,000 - 94,999	6	-	9
95,000 - 99,999	8	-	3
100,000 - 104,999	3	-	5
105,000 - 109,999	1	-	2
110,000 - 114,999	1	-	-
115,000 - 119,999	1	-	-
120,000 - 124,999	-	-	-
125,000 - 129,999	1	-	-
130,000 - 134,999	1	-	-
135,000 - 139,999	-	-	-
140,000 - 144,999	-	-	-
145,000 - 149,999	-	-	-
150,000 - 154,999	-	-	-
155,000 - 159,999	-	-	-
TOTALS	**325**	**17**	**757**

:

The number of staff in receipt of a redundancy payment in the table above is broken down as follows

Remuneration Band (£)	Non teaching staff	OneConnect ltd	Teaching staff
£50,000 - £54,999	19	-	-
£55,000 - £59,999	12	-	1
£60,000 - £64,999	6	-	1
£65,000 - £69,999	3	-	-
£70,000 - £74,999	3	-	-
£75,000 - £79,999	7	-	-
£80,000 - £84,999	3	-	-
£85,000 - £89,999	2	-	-
£90,000 - £94,999		-	-
£95,000 - £99,999	2	-	-
£125,000 - £129,999	1	-	-
Total	**58**	**0**	**2**

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

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

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£000	£000
£0 - £20,000	32	12	246	189	278	201	2,759	1,743
£20,001 - £40,000	3	1	157	93	160	94	4,636	2,673
£40,001 - £60,000	-	-	106	54	106	54	5,303	2,671
£60,001 - £80,000	-	-	67	25	67	25	4,711	1,776
£80,001 - £100,000	-	-	59	28	59	28	5,233	2,494
£100,001 - £150,000	1	-	95	26	96	26	11,673	3,211
£151,000 - £200,000	1	-	36	5	37	5	6,217	871
£201,000 - £250,000	-	-	7	3	7	3	1,647	699
£250,001 - £300,000	-	-	4	0	4	-	1,031	-
£300,001 - £350,000	-	-	1	2	1	2	303	606
total	**37**	**13**	**778**	**425**	**815**	**438**	**43,515**	**16,743**

28. Private Finance Initiative (PFI) Schemes

Fleetwood Sports College (formerly Fleetwood High School)

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

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

The Authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2012(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£000	£000	£000	£000
Payable in 2012/13	528	230	969	1,727
Payable within two to five years	2,126	1,166	3,615	6,907
Payable within six to ten years	2,473	2,638	3,523	8,634
Payable within eleven to fifteen years	2,691	4,217	1,726	8,634
Payable within sixteen to twenty years	169	527	24	720
Total	**7,987**	**8,778**	**9,857**	**26,622**

To help finance the scheme we received the following income:

	2011/12	2010/11
	£000	£000
PFI grant from the government	1,317	1,317
Contributions from the school	341	305
Contributions from the local authority	-	-
Total	**1,658**	**1,622**

Building Schools for the Future

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

Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

For each contract the authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Phase 1

The contract will provide two 1,050-place secondary schools, one with a co-located 90-place secondary special school, a sixth form centre, a primary school, a children's centre and a library.

The arrangement runs from September 2008 to August 2033.

Payments remaining to be made under the PFI contract at 31 March 2012 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £000	Repayment of Liability £000	Interest Charges £000	Total £000
Payable in 2012/13	2,995	1,812	5,177	9,984
Payable within two to five years	13,368	7,269	19,298	39,935
Payable within six to ten years	17,964	11,277	20,677	49,918
Payable within eleven to fifteen years	19,221	14,908	15,789	49,918
Payable within sixteen to twenty years	20,607	20,228	9,083	49,918
Payable within twenty to twenty-five years	4,366	8,962	816	14,144
Total	**78,521**	**64,456**	**70,840**	**213,817**

To help finance the scheme we received the following income:

	2011/12	2010/11
	£000	£000
PFI grant from the government	7,639	7,639
Contributions from the school	2,615	2,414
Contributions from the local authority	83	79
Total	**10,337**	**10,132**

Phase 2

The arrangement runs from September 2009 to August 2034.

Payments remaining to be made under the PFI contract at 31 March 2012 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £000	Repayment of liability £000	Interest Charges £000	Total £000
Payable in 2012/13	1,300	774	2,791	4,865
Payable within two to five years	5,891	3,060	10,507	19,458
Payable within six to	7,944	4,868	11,511	24,323

ten years				
Payable within eleven to fifteen years	8,653	6,553	9,117	24,323
Payable within sixteen to twenty years	8,691	9,836	5,796	24,323
Payable within twenty to twenty-five years	4,019	6,702	1,034	11,755
Total	**36,498**	**31,793**	**40,756**	**109,047**

To help finance the scheme we received the following income:

	2011/12	2010/11
	£000	£000
PFI grant from the government	3,663	3,663
Contributions from the school	1,565	1,217
Contributions from the local authority	-	-
Total	**5,228**	**4,880**

Phase 2a

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

Payments remaining to be made under the PFI contract at 31 March 2012(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for services £000	Repayment of liability £000	Interest Charges £000	Total Payments due £000
Payable in 2012/13	1,699	1,259	4,064	7,022
Payable within two to five years	7,577	5,294	15,218	28,089
Payable within six to ten years	11,343	7,239	16,529	35,111
Payable within eleven to fifteen years	11,097	10,873	13,141	35,111
Payable within sixteen to twenty years	13,068	13,588	8,455	35,111
Payable within twenty to twenty-five years	6,728	12,324	2,015	21,067
Total	**51,512**	**50,577**	**59,422**	**161,511**

To help finance the scheme we received the following income:

	2011/12	2010/11
	£000	£000
PFI grant from the government	6,069	4,612
Contributions from the school	1,334	1,622
Contributions from the local authority	-	-
Total	**7,403**	**6,234**

<u>Phase 3</u>

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

Payments remaining to be made under the PFI contract at 31 March 2012(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services £000	Repayment of liability £000	Interest Charges £000	Total Payments due £000
Payable in 2012/13	1,192	545	3,447	5,184
Payable within two to five years	5,154	2,444	13,139	20,737
Payable within six to ten years	7,743	3,425	14,753	25,921
Payable within eleven to fifteen years	7,489	6,043	12,389	25,921
Payable within sixteen to twenty years	9,035	8,171	8,715	25,921
Payable within twenty to twenty-five years	5,104	10,047	2,561	17,712
Total	**35,717**	**30,675**	**55,004**	**121,396**

To help finance the scheme we received the following income:

	2011/12	**2010/11**
	£000	**£000**
PFI grant from the government	3,177	1,726
Contributions from the school	2,086	1,131
Contributions from the local authority	-	-
Total	**5,263**	**2,857**

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

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

	2011/12	2010/11
	£000	£000
Balance outstanding at start of year	190,590	110,296
Additions during the year	-	84,623
Payments during the year	(4,313)	(4,329)
Balance outstanding at year end	186,277	190,590

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

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

Lancashire Waste Scheme

The County Council signed a PFI contract with Global Renewables Lancashire (GRL) Limited on 2 March 2007. The Works and Services to be provided under the Contract are procured by Lancashire County Council. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The contract covers delivery of Contract Waste, treatment and diversion from landfill at the Farington Site and Thornton Site as well as the subsequent disposal of waste from those sites. The waste handled/processed is Household Waste, Commercial Waste and Green Waste but not Industrial Waste. In addition an Education Centre and offices are in operation on the Farington site which the contractor also provides and manages along with other "soft services" such as tree planting, waste minimisation initiatives and developing local markets to use the end products from processed waste.

The waste treatment facilities have been built and are in operation. The contract will run for 25 years from the date the final waste treatment facility became fully operational and the total payments to GRL will be around £2.1 billion over the contract period. The Authority pays a unitary payment which consists of a fixed and a variable element, both of which are subject to inflation. This payment can be reduced if the Contractor fails to meet agreed targets. The capital costs of the PFI contract are £263 million.

The facilities were subject to a commissioning and then testing phase (Acceptance Test) during 2010 and 2011. However, this testing period was inconclusive as it was not possible to measure diversion. The Authority is currently working with GRL on an alternate method of 'signing' the plants off.

Both sites are now in deemed service commencement and as a result, full service payments commenced in the year. From an accounting point of view this also means that the assets are no longer treated as off Balance Sheet but now form part of the County Council's assets.

Payments remaining to be made under the PFI contract at 31 March 2012(excluding any estimation of inflation and availability/performance deductions) are as follows

	Payments for Services	Repayment of liability	Interest Charges	Total Payments due
	£000's	£000's	£000's	£000's
Payable in 2012/13	21,477	3,357	25,778	50,612
Payable within two to five years	99,599	12,208	99,601	211,408
Payable within six to ten years	145,474	25,834	115,080	286,388
Payable within eleven to fifteen years	178,913	36,729	98,979	314,621
Payable within sixteen to twenty years	207,520	67,637	72,171	347,328
Payable within twenty-one to twenty-five years	193,912	86,488	24,790	305,190
Total	846,895	232,252	436,398	1,515,546

The significant risks that the Authority is exposed to during this PFI contract are in relation to diversion rates and inflation. Diversion rates for diversion from landfill were bid by GRL in their original contract tender and these can be agreed annually as necessary before performance on diversion is measured. The payments/deductions are based on the tonnage variances, landfill costs and contract transport rates and are affected by the nominated Operating Throughput Capacity.

The Authority is working with GRL for the next 2 years on an 'optimisation strategy'. During these 2 years the diversion targets has been locked, thus reducing risk for both the Authority and GRL when budget forecasting.

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

There is provision within the project agreement for the termination of the contract under certain conditions by either the Authority or the Contractor. This may be in the form of voluntary termination by the Authority, termination by the Contractor on Authority default or termination by the Authority on Contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contract.

29. Section 137 expenditure

Section 137 of the Local Government Act 1972 (as amended) enables a local authority to make contributions to the funds of charities operating in the UK and to not for profit bodies providing public services in the UK. This expenditure is limited to £1.90 per head of the relevant population as defined by statute. The impact of this expenditure would amount to £2.237million.

The authority has not incurred any expenditure under this statute.

The authority does incur expenditure under the wellbeing powers of the Local Government Act 2000. This allows authorities to spend money on promoting or improving the economic, social or environmental wellbeing of their area.

30. Capital Expenditure and Capital Financing

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

	2011/12	**2010/11**
	£000	**£000**
Opening Capital Financing Requirement	837,332	710,712
Capital investment		
Property, Plant and Equipment	376,289	241,319
Investment Properties	-	-
Intangible Assets	10,549	719
Bonds	-	7,635
Revenue Expenditure Funded from Capital Under Statute	11,293	18,290
Sources of Finance		
Capital receipts	2,105	10,379
Government grants and other contributions	61,846	97,982

Sums set aside from revenue:		
Direct revenue contributions	15,748	2,893
Write down of PFI liability	17,945	1,609
Minimum Revenue Provision (MRP)/ loans fund principal	26,193	28,480
Closing Capital Financing Requirement	1,111,626	837,332
Explanation of movements in year:		
Increase in underlying need to borrowing (supported by government financial assistance)	(18,232)	18,430
Increase in underlying need to borrowing (unsupported by government financial assistance)	64,587	27,896
Write down PFI Liability	(17,945)	-
Assets acquired under Private Finance Initiative contracts	245,884	80,294
Increase (decrease) in Capital Financing Requirement	**274,294**	**126,620**

Future capital spending commitments

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

Our capital spending commitment in 2012-13 and later years for projects that commenced prior to 2011-12 is £170 million, of which £88 million will be spent in 2012-13 and £82 million 2013-14 onwards. These include projects which have started in respect of design and planning but no construction contract has been let and therefore there is no legal obligation to complete the project. Our legally committed capital expenditure as at 31 March 2012 is £34 million as detailed below:

Adult and Community Services	£1.6m
Children and Young People	£27.9m
Environment	£2.9m
Other Directorates	£1.6m

31. Operating Leases

Authority as Lessee:

The minimum lease payments over the whole term of the lease assuming all leases run for the full duration will be payable over the following periods:

	2011/12 £000	2010/11 £000
Leases expiring not later than one year	817	827
Leases expiring in two-five years	1,526	2,315
Leases expiring after five years	10,548	11,297
	12,891	**14,439**

Authority as Lessor:

The County Council has granted various property operating leases. The rentals received in 2011/12 amounted to £0.969million and the assets were subject to £ 0.072million depreciation in the year to 31 March 2012.

The minimum lease payments over the duration of the lease will be receivable over the following periods:

	2011/12 £000	2010/11 £000
Leases expiring not later than one year	697	652
Leases expiring in two-five years	406	626
Leases expiring after five years	4,200	4,312
	5,303	**5,590**

32. Finance Leases

The authority does not have any material finance leases.

Trading Operations Notes

33. Trading operations – Lancashire County Commercial Group

Our three major trading operations are:

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

In 2011/12 these trading operations made a total operating surplus of £3,459 million.

	Turnover £000	Spending £000	2011/12 Surplus/ (deficit) £000	2010/11 Surplus/ (deficit) £000

Care Services	22,921	23,876	(955)	(697)
Catering Services	23,358	22,120	1,238	655
Operational Services	122,400	119,224	3,176	6,903
Total	**168,679**	**165,220**	**3,459**	**6,861**

More information on our major trading operations' services for 2011/12 is given below.

Lancashire County Care Services

At the 1 April 2012 Lancashire County Care Services was providing:

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

Catering Services provides:

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

Operational Services provides:

- Highways and Environmental services – repairing and maintaining roads and bridges, road surfacing and street lighting for contracts won in competition and through the Highways Works Contract, routine maintenance for grounds and playing fields, and creating new landscaping schemes and sports facilities;
- Fleet Services – purchase, disposal, management, maintenance and repair of County Council vehicles and the repair and maintenance of Lancashire Fire and Rescue vehicles;
- Travel Care – caring and accessible bus services
- Building Cleaning services;
- School Crossing Patrol services; and
- Passenger Assistant services

The final accounts for 2011/12 show a turnover of £168.679 million.

34. Heritage Assets

The Authority's Heritage Assets are mainly contained within the Museum Service and the Libraries Special Collection. The museum service contains some 140,000 items which cover a variety of artefacts which are relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects. This collection has been valued by in-house professionals and a valuation of £13.3m has been placed on the collection.

Lancashire also holds a special Libraries Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the library service they are to be treated as a Heritage asset and a valuation made. Again, these valuations have been made by internal professional staff and it is estimated that the collection is valued at £14.6m.

Other heritage assets with a value of £0.5m are held in the Record Office however most of the archives are either operational documents relating to the work of the County Council or held on behalf of other organisations or individuals and therefore do not form part of the County Council's Heritage assets.

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

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

As part of the valuation process for Heritage Assets consideration is given as to whether there has been any physical damage or any factors which are likely to significantly affect the market value. Where there is a change in the value of the Heritage assets the normal accounting policy for the change as outlined in the accounting policy for Property, Plant and Equipment (note 8) will be followed.

Lancashire County Council maintains accession registers for its Heritage assets. Some of these records are published on the internet for as broad access as possible. Work is ongoing to migrate any paper records that accompany existing collections onto the computerised system.

Access to collections (assets) and their records can be affected in a number of ways from virtual access to physical examination – either on display in temporary or longer term displays and exhibitions or on request from those held in store. For the latter a mutually convenient appointment is needed to view the item(s) concerned.

No collection is static and LCMS is currently reviewing certain areas of the collections to identify any areas that are not appropriate to the formal Acquisition and Disposals Policy or are not in a fit state for long term preservation. If any items are thought to be appropriate for rationalisation the Museums Association code of practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location of an item before any consideration of final disposal is made.

35. Property, Plant and Equipment

The fixed assets figure includes properties valued at some £493 million which are not owned by the County Council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the County Council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the County Council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

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

2011/12

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Property, Plant & Equipment**
	£000	£000	£000	£000	£000	**£000**
Cost or valuation						
At 1 April 2011	1,953,690	60,272	519,052	-	14,519	**2,547,533**
Additions	318,985	5,612	53,326	-	12,765	**390,688**
Donations	-	-	-	-	-	**-**
De-recognition - Disposals	(110,886)	-	(8)	-	-	**(110,894)**
De-recognition - Others	(3,679)	-	-	-	(14,519)	**(18,198)**
Revaluations increases/(decreases) recognised in Revaluation Reserve	10,689	-	-	-	-	**10,689**

Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(16,284)	-	-	-	-	**(16,284)**
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	**-**
At 31 March 2012	**2,152,515**	**65,884**	**572,370**	**-**	**12,765**	**2,803,534**
Depreciation and Impairments						
At 1 April 2011	59,211	21,220	39,348	-	-	**119,779**
Depreciation charge for 2011/12	-	-	-	-	-	**-**
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	**-**
Depreciation written out to the Surplus/Deficit on Provision of Services	23,883	6,820	12,430	-	-	**43,133**
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	**-**
De-recognition - Disposals	(4,115)	-	-	-	-	**(4,115)**
De-recognitions - Others	(2,962)	-	-	-	-	**(2,962)**
Any Other Movements in Depreciation and Impairment	-	-	-	-	-	**-**
At 31 March 2012	**76,017**	**28,040**	**51,778**	**-**	**-**	**155,835**
Net Book Value at 31 March 2012	**2,076,498**	**37,844**	**520,592**	**-**	**12,765**	**2,647,699**
Net Book Value at 31 March 2011	**1,894,479**	**39,052**	**479,704**	**-**	**14,519**	**2,427,754**

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

2010/11
Comparative Year Re-stated

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Property, Plant & Equipment**	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	**£000**	£000
Cost or valuation							
At 1 April 2010	1,720,145	45,092	472,958	-	47,283	**2,285,478**	130,466
Additions	210,461	15,180	46,104	-	9,103	**280,848**	86,232
Reclassifications							
Donations							
De-recognition – Disposals (26,321)		-	(10)	-	-	**(26,331)**	-
De-recognition - Other	(2,284)	-	-	-	(41,867)	**(44,151)**	-
Revaluations increases/(decreases) recognised in Revaluation Reserve	119,058	-	-	-	-	**53,955**	2,912
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(65,103)	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(2,266)	-	-	-	-	**(2,266)**	-
At 31 March 2011	**1,953,690**	**60,272**	**519,052**	**-**	**14,519**	**2,547,533**	**219,610**

Depreciation and Impairments							
At 1 April 2010	38,563	15,275	28,070	-	-	**81,908**	(1,461)
Depreciation charge for 2010/11	20,648	5,945	11,278	-	-	**37,871**	(2,099)
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	**-**	-
Depreciation written out to the Surplus/Deficit on Provision of Services	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
De-recognition - Disposals							
De-recognition - Other	-	-	-	-	-	-	-
Any Other Movements in Depreciation and Impairment	-	-	-	-	-	-	-
At 31 March 2011	**59,211**	**21,220**	**39,348**	**-**	**-**	**119,779**	**(3,560)**
Net Book Value at 31 March 2011	**1,894,479**	**39,052**	**479,704**	**-**	**14,519**	**2,427,754**	**216,050**
Net Book Value at 31 March 2010	**1,681,582**	**29,817**	**444,888**	**-**	**47,283**	**2,203,570**	**129,005**

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Effects of Changes in Estimates

In 2011/12 the authority made no material changes to its accounting estimates for Property, Plant and Equipment.

Depreciation

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

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

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

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

Summary of our main assets

Directorate for Children and Young People	**Number**
Short Stay Schools	12
Nursery schools	24
Primary schools (including 250 aided schools)	480
Secondary schools (including 27 aided schools)	69
Special schools	30
Children's Centres	58
Youth Centres/Establishments	33
Outdoor education centres	4
Mainstream residential homes	13
Short-term residential units for children with disabilities	8
Children and parenting support centres	12

Land and buildings for an aided school are normally financed by a voluntary organisation (usually a church authority). But we may have funded other capital spending at the school.

Highways and transport services	
Principal county roads (kilometres)	780
Other county roads (kilometres)	6,185
Principal motorways, including slip-roads maintained by the council (kilometres)	31
Number of Structures (mainly bridges)	1,774
Retaining walls (kilometres)	324
Highways depots/stores	33
Transport information centres	3
Bus stations	2
Bus/rail interchanges	2
Park and ride sites	3

Adult and Community Services Directorate	
Residential homes:	
– for older people	17
– for people with learning disabilities	9
– for people with mental health needs	4
Day centres:	
– for people with learning disabilities	12
– other	18
Adult Education Colleges	2
Libraries, museums, arts and recreation services	
Libraries	70
Museums and Art Galleries	7
Record office	1
Country parks	2
Picnic sites	9
Nature reserves	3
Woodlands	68
Other services	
Smallholdings (hectares)	103
County analyst's laboratory	1
County Hall and other administrative buildings	18
Household waste recycling centres owned sites	19
Waste technology park sites	2

Fixed Asset Valuation

The property valuations are undertaken by appropriately qualified staff within the property group of the County Council.

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

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

Properties regarded by the authority as non operational are to be valued on the basis of market value.

No property valuation is to be more than five years old and at least 20% of properties are revalued each year. In 2011/12 190 properties were revalued which equates to approximately 27% of all the properties held. The valuation attached to these properties was £172.1 million.

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

	Land and Buildings	**Assets Under Construction**
	£000	**£000**
Valued at historical cost	369,385	
Valued at current value in:		
2011/12	172,083	-
2010/11	628,667	-
2009/10	286,432	-
2008/09	375,654	-
2007/08	320,293	-
Total	2,152,515	**-**

36. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31 March 2012 £000	31 March 2011 £000
Rental income from Investment Property	(89)	(89)
Direct operating expenses arising from investment	-	-
Net (Gain)/loss	**(89)**	**(89)**

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

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

	31 March 2012 £000	31 March 2011 £000
Balance at start of year:	5,451	4,942
Additions:	-	-
Purchases	-	-
Construction	-	-
Subsequent Expenditure	-	-
Disposals	(6)	-
Net gains/ losses from fair value adjustments	37	142
Transfers:		
To/From inventories	-	-
To/From Property Plant and Equipment	-	381
Other Charges	-	(14)
Balance at end of year:	**5,482**	**5,451**

37. Intangible Assets

The authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority. The useful lives assigned to the major software suites are:

	Internally Generated £000	Other £000
3 years	-	-
5 years	-	-
7 years	12,721	2,172
10 years	-	-

The movement on Intangible Asset balances during the year is as follows:

	2011/12			2010/11		
	Internally Generated Assets	Other Assets	**Total**	Internally Generated Assets	Other Assets	**Total**
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011:					237	237
Gross Carrying Amount		2,172	2,172			
Accumulated Amortisation		559	559	-	-	-
Net Carrying Amount at 1st April		1,613	1,613		237	237
Additions:						
Internal Development	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Acquired through Business Combinations	-	10,549	10,549	-	1,475	1,475
Amortisation for the period	-	(308)	(308)	-	(99)	(99)
Other changes	-	-	-	-	-	-
Net Carrying Amount at end of year	-	11,854	11,854	-	1,613	1,613
Comprising:						
Gross carrying amounts	-	12,721	12,721	-	2,172	2,172
Accumulated amortisation	-	(867)	(867)	-	(559)	(559)

Individual Items of Material Capitalised Software

	Carrying Amount 31 March 2012 £000	Carrying Amount 31March 2011 £000	Remaining Amortisation Period in years
Pension Administration Software	648	755	6
Schools Network Infrastructure	617	720	6
Contact Centre	39	-	1
Enterprise Resources Planning System	10,549	-	7

38. Financial instruments

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

	Long-term		Short-term	
	2011-12	**2010-11**	**2011-12**	**2010-11**
	31-Mar-12 £000	**31-Mar-11 £000**	**31-Mar-12 £000**	**31-Mar-11 £000**
Investments				
Loans and Receivables				
Cash Deposits	202,092	249,405	66,438	40,686
Impaired Investments			4,545	6,373
Other Loans	5,880	5,888		
Cash and Cash Equivalents (see Note 48 for breakdown)	-	-	47,896	71,356
Total Loans and Receivables	**207,972**	**255,293**	**118,879**	**118,415**
Available-for-Sale financial assets				
Bonds	27,706	20,795	-	122,312
Total Available for Sale Financial Assets	**27,706**	**20,795**	**-**	**122,312**
Financial Assets at Fair Value through P&L				
Bonds	-	-	257,569	-
Total Financial Assets at Fair Value through P&L	**-**	**-**	**257,569**	**-**
Total Investments	**235,679**	**276,088**	**376,448**	**240,727**
Debtors				
Financial assets carried at contract				

amounts	45,227	47,900	85,774	94,900
Total Debtors	**45,227**	**47,900**	**85,774**	**94,900**
Borrowing				
Financial liabilities at amortised cost				
PWLB loans	383,436	390,370	10,002	13,596
LOBOs	51,663	50,442	-	-
Other Market loans	27,680	-	340,834	337,699
Local bonds	22	22		-
Total Borrowings	**462,802**	**440,834**	**350,836**	**351,295**
Other long term liabilities				
Private Finance Initiative (PFI)	410,553	186,278	7,977	4,313
Total other long term liabilities	**410,553**	**186,278**	**7,977**	**4,313**
Creditors- Financial liabilities carried at contract amounts			**186,488**	**189,134**
Total Creditors- Financial liabilities carried at contract amounts	**-**	**-**	**186,488**	**189,134**

The following table sets out the structure of the County Council's debt at 31 March 2012. For clarity the figures in this table show the principal amounts borrowed. They do not include accrued interest or accounting adjustments for deferred premiums on debt restructures made before 2007 which are included in the balance sheet.

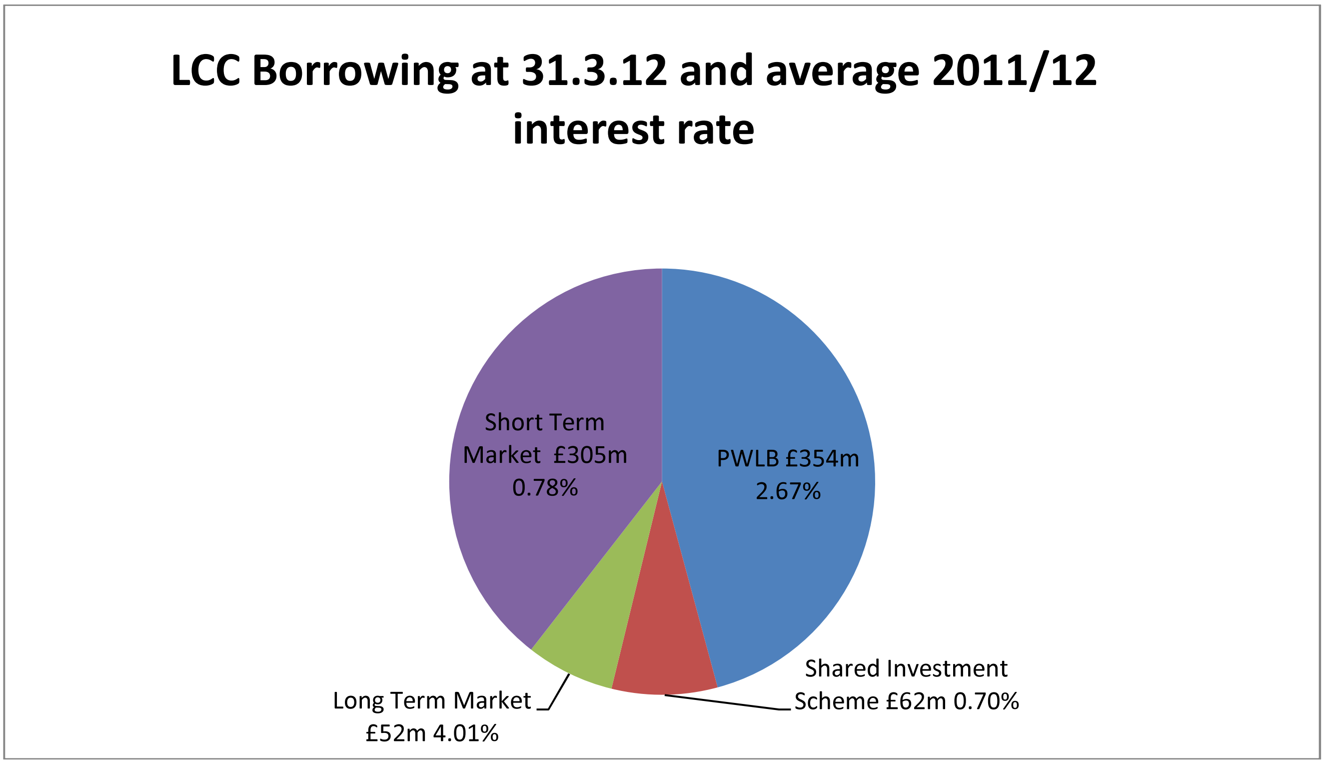
	Debt at 31 March 2011		**Borrowing**	**Repayments**	**Debt at 31 March 2012**	
	£m	**%**	**£m**	**£m**	**£m**	**%**
Fixed Rate Funding						
Public Works Loan Board	213.600	26.78		0.500	213.100	26.04
LOBO (RBS)	50.000	6.32			50.000	6.32
Local Bonds	0.022	0.00			0.022	0.00
Short term Market Borrowing	285.200	35.76	1,305.835	1,286.435	304.600	37.22
	549.264		**1,307.057**	**1,286.935**	**569.386**	
Variable Rate Funding						
Public Works Loan Board	195.750	24.55	0	10.000	185.750	22.70
Shared Investment Scheme	52.499	6.59	425.718	414.963	63.254	7.73

	248.249		**425.718**	**424.963**	**249.004**	
Loan Debt Administered by the County Council	**797.513**	**100.0**	**1,732.775**	**1,711.898**	**818.390**	**100**

The total loan debt administered by the County Council at 31 March 2012 of £818.390m represents mainly borrowings over the years to finance the acquisition of the County Council's fixed assets, which are currently valued at £2.648 billion. However, it includes £45.227m managed by the County Council on behalf of other local authorities and the Police Authority. This debt relates to assets transferred to those authorities in local government re-organisations and the financing charges are repaid to the County Council quarterly. This leaves the net debt for which the County Council is responsible at £773.163m.

Overall the average rate of interest paid in 2011/12 on the debt administered by the County Council was 2.11% per annum compared with an average rate of 2.69% in 2010/11 and 4.37% in 2009/10.

The following chart shows the breakdown of the County Council's Debt and the average interest rate payable. The chart excludes debt transferred to other authorities; this has been adjusted within the PWLB total.

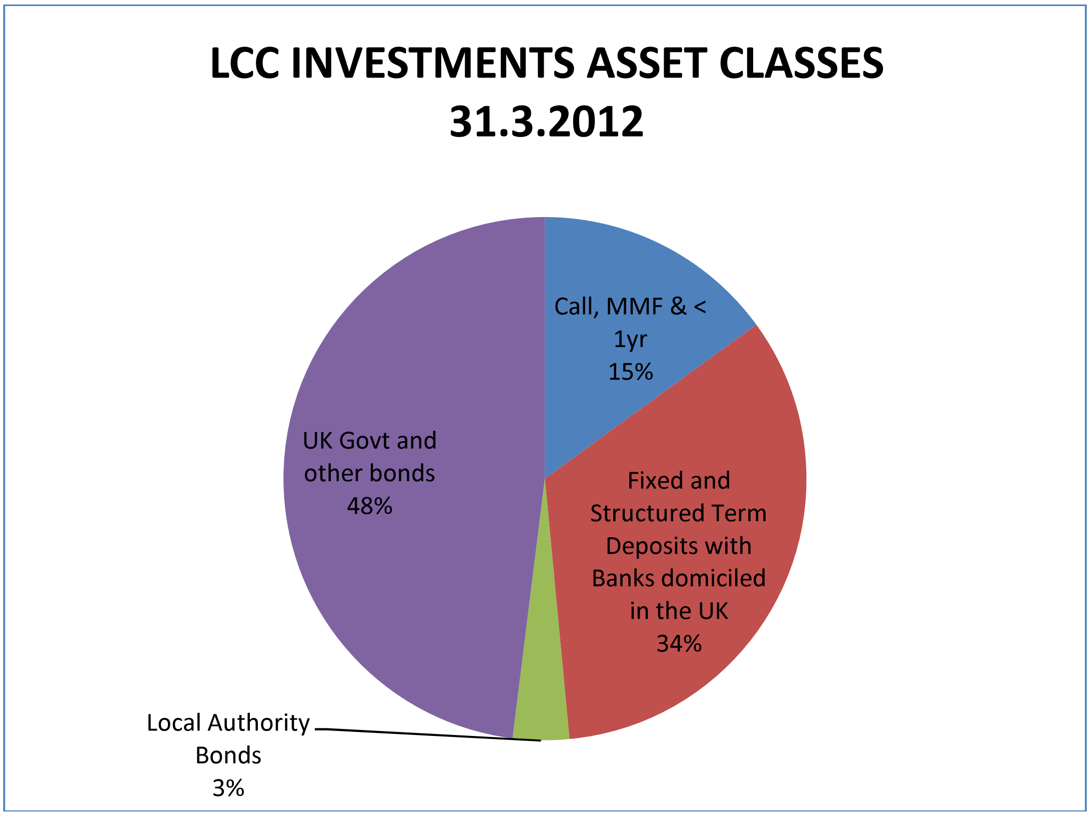


The current strategy of taking advantage of very low short term interest rates, whilst extremely cost effective, means that much more of the Council's debt needs to be refinanced in the short term, so exposing the portfolio to some interest rate and liquidity risk which will need to be carefully managed in the coming year.

The majority of the Council's investments are now in UK Government guaranteed bonds or deposits in institutions with Government ownership/support.

Lancashire has a benchmark for the average rate of interest earned on its invested cash balances. The benchmark rate is the average commercial market rate for money deposited on 7 days' notice. During 2011/12, on average, that rate was 0.48%, with Lancashire's average rate being 7.00% over the same period, reflecting the longer term deals which are still attracting a relatively high interest rate, and most significantly, the realised gains from the increase in UK Government bond prices during the year. The rate also includes the unrealised gains and losses applied to the general fund after accounting for the traded bond portfolio as 'fair value through profit and loss' (see note 1 financial assets in accounting policies).

The value of investments held by Lancashire County Council at 31st March 2012 is £584.36m. The chart below shows the asset classes and the proportion of investments held in each class.



The table below shows a maturity analysis of the portfolio at 31st March 2012, alongside the average interest rate earned over the 2011-12 financial year.

Maturity Range	**Amount £m**	**Average Rate %**
Bank Call, MMF & Bank Deposits Under 1year	**89.87**	**1.60%**
Bank Deposits 1-2 Years	**104.60**	**2.79%**
Bank Deposits 2-3 Years	**20.00**	**2.43%**

Bank Deposits 3-5 Years	**78.73**	**3.06%**
Long term operational Loans	**5.88**	**4.68%**
Local Authority Bonds	**20.66**	**10.24%**
Bonds	**125.56**	**18.81%**
Index Linked Bonds	**139.06**	**9.82%**
Totals	**584.36**	**7.00%**

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

The gains and losses during 2011/12 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Account, are as shown in the following table:

	2011/12 £000					**2010/11 £000**				
	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	**Total**	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Profit & Loss	**Total**
Interest Expense	16,793	-	-	-	16,793	18,608	-	-	-	18,608
Losses on Derecognition					-	30,115	-	-	-	30,115
Reductions in Fair Value	-	-	-	-	-	-	-	-	-	-
Impairment Losses	-				-	977	-	-	-	977
Fee Expense	194	-	-	-	194	299	-	-	-	299
Total Expense in Surplus/Deficit on the Provision of Services	**16,987**	**-**	**-**	**-**	**16,987**	**49,999**	**-**	**-**	**-**	**49,999**
Interest Income	-	(8,785)	(2,081)	(2,088)	(12,954)	-	(11,881)	(5,758)	-	(17,639)

Interest income accrued on impaired financial assets	-	-	-	(4)	(4)	-	(105)	-	-	(105)
Increases in fair value										
Decrease in Fair Value	-	-	-	19,732	19,732		-	-	-	-
Gains on derecognition	-	-	(7,000)	(49,138)	(56,138)	(452)	-	-	-	(452)
Losses on derecognition	-	-	-	2,375	2,375					
Fee income					-	-	-	-	-	-
Total income in Surplus/Deficit on the Provision of Services	**-**	**(8,785)**	**(9,081)**	**(29,123)**	**(46,989)**	**(452)**	**(11,986)**	**(5,758)**	**-**	**(18,196)**
Gains on revaluation			(7,159)		(7,159)	-	-	-	-	-
Losses on revaluation			479		479	-	-	-	-	-
Amounts recycled to the Surplus/ Deficit on the Provision of Services after impairment	-	-	-	-	-	-	-	-	-	-
Surplus/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	-	-	(6,680)	-	(6,680)	-	-	7,159	-	7,159
Net Gain/(Loss) for the Year	**16,987**	**(8,785)**	**(15,761)**	**(29,123)**	**(36,682)**	**49,547**	**(11,986)**	**1,401**	**-**	**38,962**

40. Treatment of Icelandic Deposits in 2011/12 Accounts

Lancashire County Council had £6.436m on deposit with the Icelandic Bank Landsbanki Is when it collapsed in October 2008. The County Council was one of many UK and Dutch Local Authorities with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14 and 15 of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations.

The winding up board made its first distribution on 7 December 2011 and a second distribution on 25 May 2012. Approximately 42% of the total claim has now been repaid.

The table below shows the combined amount of the distributions and the amount outstanding.

	£
CLAIM	
Principal	6,435,808.29
Interest	93,384.46
TOTAL CLAIM	6,529,192.75
DISTRIBUTIONS RECEIVED TO DATE:	
Principal	2,678,448.63
Interest	38,864.66
TOTAL DISTRIBUTIONS	2,717,313.29
CLAIM OUTSTANDING	3,811,879.46

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

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

41. Fair Value of Financial Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The available for sale assets and fair value through profit and loss assets are already carried in the balance sheet at their fair value. The Fair values are shown in the table below.

	31st March 2012		31st March 2011	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£m	£m	£m	£m
Loans from the Public Works Loan Board	393.438	449.404	403.966	423.890

Market Debt	420.200	434.968	388.141	383.978
Long/Short Term Investments	584.355	582.124	482.362	480.420

The fair value of our PWLB loans is the amount that would have been payable had those loans been repaid to the PWLB on the balance sheet date rather than on their contracted future maturity date. This valuation takes into account the premiums that would be payable or discounts receivable on early repayment of loans to the PWLB. These premiums and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date. Where the duration of a financial instrument is less than one year, its fair value may be deemed to be the same as its nominal value.

The fair value of our market debt is slightly higher than the carrying amount, reflecting the fact that the authority's portfolio of market loans is generally at rates higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

The fair value of our investments is slightly lower because the portfolio includes a number of fixed rate loans where the interest rate receivable is slightly lower than the rates available for similar investments at the balance sheet date.

42. Nature and Extent of Risks Arising From Financial Instruments

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

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

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

Credit Risk

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

With regard to financial institutions the risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration which the County Council can be invested in an institution depending upon the quality of credit rating. However, in the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

A main principle of the 2011-12 credit risk strategy was to invest mainly in UK Government credit through nationalised' banks and Government guaranteed bonds. In addition, one of the bank loans is collateralised (backed by UK Government securities), providing further access to government credit quality.

The table below summarises the County Council's investments at 31 March 2012 (values exclude impairments and accrued interest), in terms of credit ratings. The historic default rate for the individual investment category is applied to each group to give an overall measure of the value at risk. The chance of a default is currently calculated as £0.84 million in £573 million or 0.15% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	< 1 mo	< 3 mo	< 6 mo	< 1 y	< 2 y	< 5 y	< 10 y	> 10 y	**TOTAL**
Government entities (AAA)	3	8	-	1	1	22	8	275	**317**
Barclays Bank (A)	-	-	-	-	50	-	-	-	**50**
Lloyds Banking Group (A)	-	-	-	30	25	25	-	-	**80**
Royal Bank of Scotland Group (A)	8	-	-	25	20	50	-	-	**102**
Santander Group (A+)	-	-	-	-	10	-	-	-	**10**
Svenska Handelsbanken (AA-)	15	-	-	-	-	-	-	-	**15**
Total Investments £m	**26**	**8**	-	**55**	**105**	**97**	**8**	**275**	**573**
Historic default rate (AA-, %)	0.01	0.01	0.02	0.04	0.11	0.45			
Historic default rate (A+, %)	0.02	0.02	0.03	0.06	0.17	0.61			
Historic default rate (A, %)	0.02	0.02	0.04	0.08	0.22	0.77			
Exposure to default £m	**0.00**	-	-	**0.04**	**0.22**	**0.57**			**0.84**

In the context of credit risk, trade debtors are treated as financial instruments. Trade debtors represent money owed to the council by individuals who use our services and other organisations to whom we have provided goods or services.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and therefore potential uncollectability over the last five financial years.

	Total Trade Debtors at 31 March 2012	Historical experience of default (i.e. 5 yr average % of debt older than 30 days)	Historical experience of debt that could become uncollectible (i.e. over 180 days old)	Estimated maximum exposure to default and uncollectability based on historical average
	£000	%	%	£000
	A	B	C	(A X C)
The position at 31 March 2012	35,933	41.3	17.6	6,324
The position	34,762	38.5	14.8	5,145

at 31 March
2011

The age profile of debt which is past the due for payment date (i.e. older than 30 days) can be analysed as follows:

31 March	**2012**	**2011**
	£000	**£000**
Less than 3 months	9,649	4,290
Three to six months	1,869	2,197
Six months to one year	2,970	2,454
More than one year	5,452	5,516
Total	**19,940**	**14,457**

In addition to the above trade debtors, the council is also required to account for its share of the council tax owed to the 12 district council collection funds across Lancashire. As at 31 March 2012 this amounted to £31.9 million (£30.4 million as at 31 March 2011). This debt relates to several tax years and the treasurers of the district councils have based on their experience of collecting this debt, taken a view that £14.4 million (45.1%) of this will not be collected (compared with £13.3 million (43.8%) in 2010/11). These amounts need to be seen in the context of the total amount of council tax raised by the County Council of £424.7 million and the amount owed at the end of the year represents 7.5% of the tax raised in the year (£423.6 million and 7.2% for 2010/11).

The County Council maintains a provision for bad and doubtful debts (see note 46) which at 31 March 2012 stood at some £22.4 million, (including £14.4 million for the councils share of council tax owed to the 12 district councils, as explained above). This is broadly based on the total of debt that is more than six months old. However, a significant proportion of such debt is considered collectable or is in the process of being paid and so as well as allocating predicted collection percentages to the various stages of debt recovery, designated Income Champions in each directorate also performed a more detailed assessment of the likely collection of such debts, resulting in the County Councils proportion of the provision totalling £8 million (compared to £7.2 million for 2010/11).

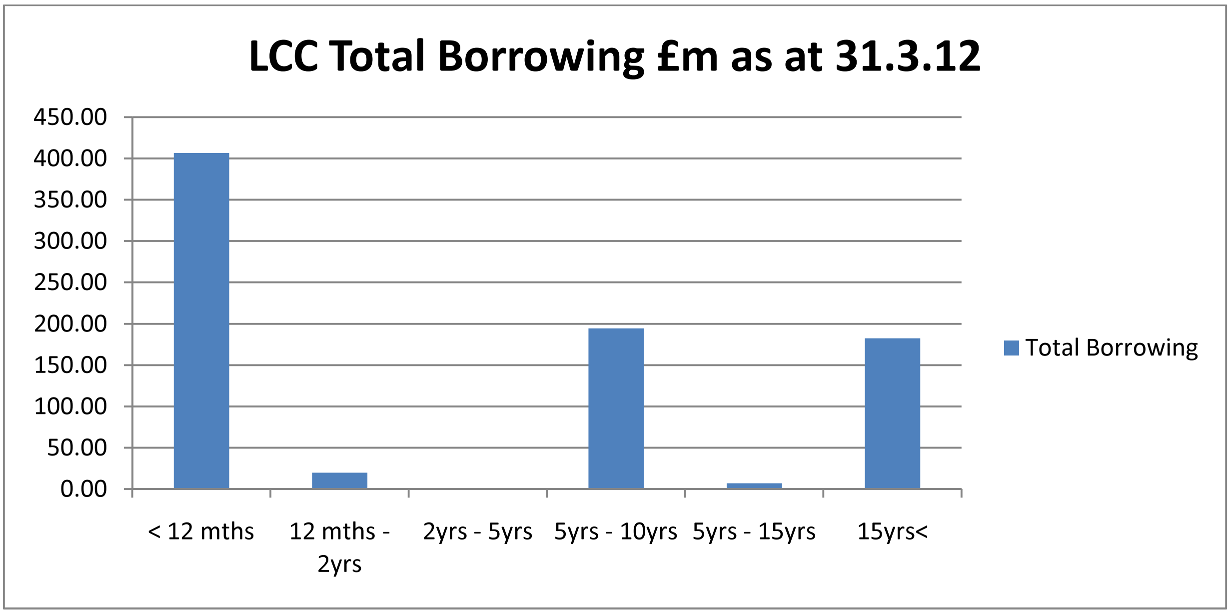
Liquidity Risk

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

The County Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that the County Council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

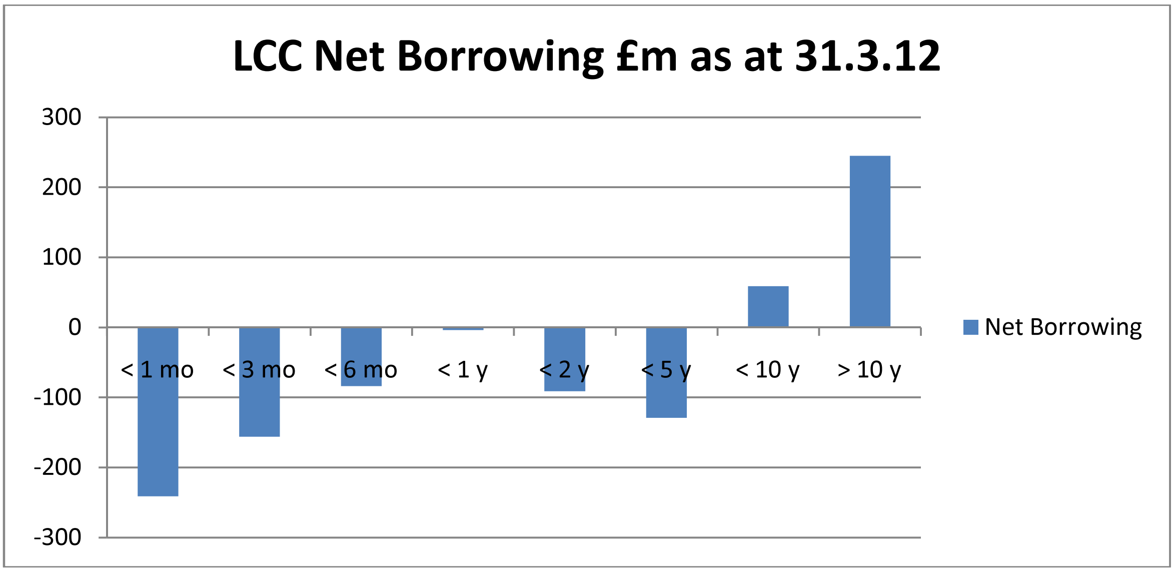
Previous treasury management strategies have centred on long term fixed rate PWLB borrowing alongside a short term investment policy. This maturity mis-match became very expensive when short term rates fell to their current very low levels. The debt restructures undertaken in 2010-11 have reduced the amount of interest we pay on the debt but have also significantly altered the profile of the authority's outstanding debt.

The chart below shows the maturity profile of the County Council's debt at 31 March 2012.



It can be seen that there is a large level of short term borrowing which needs to be refinanced on a regular basis as part of the strategy to benefit from low short term rates, and it is this which gives rise to the interest rate risk, nevertheless, the risk is partly mitigated by maturing short term investments.

The chart below shows the net refinancing risk, that is total borrowing less maturing or available for sale investments.



It can be seen that although there is a significant level of short term borrowing liquidity is available through longer term borrowing and maturing and, if required, saleable investment assets, At some point the short term borrowing will be switched back again to long term debt, but for the immediate future this risk is carefully maintained.

Market Risk

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

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

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

A fall in the fair value of fixed rate investments that are held for trading will result in a charge to the Surplus or Deficit on the Provision of Services, reducing the General Fund Balance. A fall in the fair value Available-for-Sale investments will be reflected in Other Comprehensive Income. A fall in the fair value of other investments will have no impact on the primary financial statements, but will be disclosed in the notes to the accounts.

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

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

The table below attempts to quantify the interest rate risk looking back at the 31 March 2012 position.

The effect if interest rates were 1% higher with all other variables held constant:	**£000**
Increase in interest payable on variable rate borrowings	(3,304)
Increase in interest receivable on variable rate investments	175
Decrease in fair value of investments held for trading*	(45,508)

Impact on surplus or deficit on the provision of services	**(48,637)**
Decrease in fair value of fixed rate available for sale investment assets	(3,202)
Impact on other Comprehensive Income & Expenditure	**(51,839)**
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.)	(1,825)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.)	30,285

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

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

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

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

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and therefore have no exposure to loss arising from movements in exchange rates.

43. Euro account

In addition to the amounts shown on the balance sheet, we are responsible for a small cash balance in euros. This is held in a separate bank account on behalf of overseas partner organisations. On 31 March 2012 the balance in this account was €257.98 (£215.15).

44. Construction Contracts

Highways Model 3 Section 278 Agreements

At 31 March 2012 the Authority had 98 construction contracts in progress: these were Model 3 - Section 278 agreements in which work is carried out on the existing adopted highway for the benefit of a third party usually 100% funded by the third party (e.g. new supermarket).

The value of the work completed at 31 March 2012 has been established by measuring the costs that have been incurred to date. Contract costs have been recognised as an expense when incurred and revenue has been recognised only to the extent of the contract costs incurred and that it is probable the revenue will be recoverable. In both cases, any expected contract losses have been recognised immediately. The completeness of the contracts is measured as part of the authority capital monitoring process. The value of work due to complete is deemed to be the value paid in advance by developers, on the basis of detailed estimates provided to the developer by the county council for the works to be undertaken. The amount due in relation to these contracts at 31 March 2012 is detailed in the table below.

	Highways Model 3 - Section 278 Agreements
	£000
Costs Incurred to Date	34,480
Revenue Recognised	
Before April 2011	31,219
During 2011/12	3,142
Loss	**119**
Advances Received	(4,898)
Works to be Completed	(4,898)
Gross Amount Due	**-**

45. Inventories

	Consumables £'000		Maintenance Materials £000		Total £000	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012
Balance at Start of Year	2,927	2,828	200	673	3,127	3,501
Purchases	17,280	16,311	537	228	17,817	16,539
Recognised as Expense in Year	(17,224)	(16,757)	-	-	(17,224)	(16,757)
Written off balances	(154)	(57)	-	-	(154)	(57)
Reversals of Write offs in Previous Years	-	-	-	-	-	-
Balance at Year End	**2,829**	**2,325**	**737**	**901**	**3,566**	**3,226**

46. Debtors

	2011/12			2010/11		
	Debtor Amount	Deduct bad debt provision impairment	Debtor net amount after deduction for bad debt provision impairment	Debtor Amount	Deduct bad debt provision impairment	Debtor net amount after deduction for bad debt provision impairment
	£000	£000	£000	£000	£000	£000
Capital Debtors	5,149	-	5,149	9,285	(3)	9,282
Trade Debtors	12,192	(7,527)	4,665	10,247	(6,571)	3,676
Capital Grant and Contributions	-	-	-	-	-	-
Government Grant	30	-	30	10,622	-	10,622
Regenerate Pennine Lancashire	-	-	-	-	-	-
VAT	4,299	-	4,299	6,496	-	6,496
Loans to Employees to Buy Cars	(164)	-	(164)	(152)	-	(152)
Central Government Bodies	497	(5)	492	745	(8)	738
NHS Bodies	2,406	(287)	2,119	531	(271)	259
Other Local Authorities	8,741	(50)	8,691	11,727	(165)	11,562
Other Public Corporations	295	(9)	286	464	(12)	452
Council Tax Owed by Billing Authorities	31,873	(14,382)	17,490	30,452	(13,264)	17,188
Other Debtors	42,851	(135)	42,716	35,014	(147)	34,867
Total	**108,168**	**(22,394)**	**85,774**	**115,431**	**(20,441)**	**94,990**

The provision for bad and doubtful debts covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

47. Creditors

	31 March 2012 £000	31 March 2011 £000
Suppliers of goods and services	66,773	44,027
Government Grants	165	2,368
Capital Creditors	3,620	5,098
PAYE Creditors	23,480	25,394
Regenerate Pennine Lancashire Grant (formerly Elevate)	-	-
Other	35,097	47,773
Central Government Bodies	70	109
Other Local Authorities	2,286	5,703
NHS Bodies	7,509	4,736
Other Public Corporations	2,087	16
Owed to Billing Authorities	8,966	9,994
Lancashire County Council's share of billing authority creditors deficit	7,003	6,025
Accumulated Absence Creditors	29,432	37,891
Total	**186,488**	**189,134**

48. Cash and Cash Equivalents

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

	31 March 2012 £000	31 March 2011 £000
Cash held by authority	760	15,255
Bank current accounts	27,012	19,198
Short term deposits under 3 months	20,124	36,903
Total Cash and Cash Equivalents	**47,896**	**71,356**

49. Payments in advance

Payments in advance are cash payments which we made on or before 31 March which are charged to the income and expenditure account in the following financial year.

	31 March 2012 £000	31 March 2011 £000
Advance lease rental payment	22	34
Other payments in advance	4,417	3,659
Total	**4,439**	**3,693**

50. Receipts in advance

Receipts in advance are cash amounts which we received on or before 31 March which relate to the following financial year. The biggest amount is grant income to schools, which will be spent before the end of the academic year.

	31 March 2012 £000	31 March 2011 £000
Adults and Community Services	15,282	15,380
Children and Young People Directorate	653	1,522
Environment Directorate	4,993	12,216
Other	1,582	2,396
Total	**22,510**	**31,514**

51. Provisions

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

	Balance at 1st April 2011	Additional provision made in 2011/12	Spending met from the provision 2011/12	Unused amounts reversed in 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000
Insurance provision	20,250	8,761	(8,629)	(2,000)	**18,382**
Teachers' pension provision and part-time election	264	-	(46)	-	**218**
Building Schools for the Future	1,016	6	-	-	**1,022**
Gawthorpe Museum Capital Scheme	500	-	(500)	-	**-**
Swimming pool repairs and maintenance	97	-	(21)	-	**76**
Heritage Trust Fund	-	450	-	-	**450**
VAT Liability for Voluntary Aided schools (Property Scheme)	141	-	-	-	**141**

Section 117 client refunds	800	-	(122)	-	**678**
MMI (Municipal Mutual Insurance) Provision	-	4,535	-	-	**4,535**
CRC Energy Efficiency Allowance Provision	-	900	-	-	**900**
Equal Pay Review Provision	8,432	7,787	(11,006)	-	**5,213**
Early Retirement Early Severance Provision	10,441	8,419	(16,224)	-	**2,636**
Employment Tribunal	222	-	(122)	-	**100**
Aids and Adaptations	190	38	-	-	**228**
Legal Settlement and Costs	100	671	-	-	**771**
Children's Trusts - Safeguarding	1,000	46	-	(1,046)	**-**
Pensions Contract provision	112	36	-	-	**148**
Total Provisions	**43,565**	**31,649**	**(36,670)**	**(3,046)**	**35,498**

Insurance provision

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

Teachers' pension provision

In 1995 part-time hourly-paid teachers and lecturers were allowed to join the Teachers' Pension Scheme. With effect from 1 April 2002, any arrears of contributions have to be recovered in full from the employer i.e. the County Council. There is a delay in processing applications for some staff therefore the provision was established to fund these contributions. The spending met from the provision in year relates to applications which have been settled.

Building Schools for the Future

This provision relates to abortive costs which will be incurred by the authority in association with the cessation of the Phase 4 – Building Schools for the Future Programme (BSF) and disputed utilities costs. This provision will also assist in bridging the funding gap anticipated with the outstanding BSF programmes. It is anticipated that the associated work and costs will be incurred in 2012/13.

Gawthorpe Museum Capital Scheme

The provision was originally set-up in 2007/8 for the estimated backlog of repair and maintenance and dilapidations required on Gawthorpe Museum based on estimates at the time taken from briefing papers prepared by the County Council's property group. The County Council has since then been negotiating new arrangements in respect of this facility alongside a review of the future options for the museum. Progress on the review has been relatively slow and the provision has been removed on the basis that it is no longer clear as to the scale and certainty of any potential future liability.

Swimming repairs and maintenance

This provision is to cover the cost of repairs and maintenance work required as identified by the County Council's property group, following health and safety inspections of Heysham, Carnforth and Hornby swimming pools. It is anticipated that the associated work will be undertaken during 2012/13.

Heritage Trust (North West Guarantee)

This provision reflects a potential liability in relation to loans from the Architectural Heritage Trust to the Heritage Trust for the North West for which the County Council is the guarantor. At this stage it is not clear when a liability will materialise and, on this basis, the provision is reflected as a closing balance at 31 March 2012.

Provision for VAT Liability for Voluntary Aided Schools (Property Scheme)

A reassessment of the application of rules for reclaiming VAT for voluntary aided schools has lead to the authority having to provide for a liability to HM Revenue and Customs. It is anticipated that the liability will be settled in early 2012/13.

Section 117 client refunds

This provision is for the refund of client contributions under section 117 of the Mental Health Act. These refunds are made as and when individual service users present valid claims to the County Council.

MMI (Municipal Mutual Insurance)

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

CRC Energy Efficiency Allowance Provision

It was agreed by the Local Authority Accounting Panel (LAAP) that Carbon Reduction Commitment (CRC) transactions should be accounted for as central costs and defined as Non Distributed Costs (NDC). It was further agreed that in proposing a Non Distributed Cost treatment, LAAP recognised that net Carbon Reduction Commitment Scheme costs or income may relate to, for example, schools. However, since the cost/income is likely to be immaterial in the early years of the scheme, the position would be reviewed when the scheme became established. Allowances for 2011/12 will not now need to be purchased from the government until after the end of the year (i.e. in

2012/13). As allowances do not need to be purchased until during 2012/13, a long term provision has been set up to provide for potential costs.

Equal Pay Review Provision

This provision covers the estimated costs of compensation payments and pay protection following the Equal Pay Review.

Early Retirement Early Severance Provision

The provision sets aside funds to cover the estimated costs for redundancy arrangements.

Employment Tribunal

This provision is for current employment tribunal cases pending. Outstanding cases are likely to be resolved during 2012/13.

Aids and Adaptations

This provision is for agreed financial support for property adaptation or alteration costs to homes of County Council foster carer properties to facilitate long-term placements. It is envisaged that contributions made to the provision during 2011/12 will be spent during 2012/13. The provision is based on an estimate of costs and the complexity of the work will determine the timing of the date of completion.

Legal Settlement and Costs

This provision is for ongoing legal settlements and costs which will be resolved in 2012/13.

Provision for Children's Trusts – Safeguarding

This provision relates to additional investment provided by the Schools Budget specifically to support the Lancashire Early Intervention Strategy. This funding has been allocated to the twelve Lancashire Trust Partnerships in 2011/12 and will be spent during 2012/13. The Provision has been reversed out and transferred into the Schools Budget Children's Trust reserves.

Pensions Contract provision

Provision - none current liability. This provision is for the potential termination of external contracts. It is anticipated that this will be needed in around four year's time to cover potential redundancy costs and timing issue on payments for software.

52. Assets Held for Sale

Under IFRS accounting rules a much stricter definition is applied for Assets Held for Sale. The assets must be available for immediate sale in their present condition, are being actively marketed, and the sale is expected to be completed within one year. Assets not meeting this new stricter definition are now required to be disclosed within the Property, Plant and Equipment category in the Balance Sheet.

	Current		Non Current	
	2011/12	2010/11	2011/12	2010/11
	£000	£000	£000	£000
Balance outstanding at start of year	2,366	2,749	-	-
Assets newly classified as held for sale:				
Property Plant and Equipment	1,411	2,564	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Revaluation losses	(715)	(679)	-	-
Revaluation gains	831	-	-	-
Impairment losses	-	-	-	-
Assets declassified as held for sale:				
Property Plant and Equipment	(1,807)	(298)	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Assets sold	(172)	(1,955)	-	-
Transfers from non-current to current	-	-	-	-
Other movements	(13)	(16)	-	-
Balance outstanding at year end	**1,901**	**2,365**	-	-

53. Usable Reserves

Movements in the authority's useable reserves are detailed in the Movement in Reserves Statement.

54. Unusable Reserves

Revaluation Reserve

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

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

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2011/12	2010/11
	£000	£000
Balance at 1 April	769,550	669,184
Upward revaluation of assets	16,151	139,149
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(5,257)	(20,092)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**10,894**	**119,057**
Difference between fair value depreciation and historical cost depreciation	(7,396)	(7,753)
Accumulated gains on assets sold or scrapped	(53,224)	(10,650)
Reclassifications	(1,156)	(288)
Amount written off to the Capital Adjustment Account	(61,776)	(18,691)
Balance at 31 March	**718,668**	**769,550**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

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

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9, adjustments between funding basis and regulations, details the source of all the transactions posted to the account.

	2011/12	**2010/11**
	£000	**£000**
Balance at 1 April	861,965	863,391
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non current assets	(43,147)	(37,886)
Revaluation losses on Property, Plant and Equipment	(16,484)	(65,691)
Amortisation of intangible assets	(308)	(99)
Revenue expenditure funded from capital under statute	(11,293)	(18,290)
Reversal of charge re transfer of Academies	(97,988)	(19,665)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(8,968)	(7,207)
Amounts written off on sale of Investment Bonds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	(7,635)
Net written out amount of the cost of non-current assets consumed in the year		-
Adjustment of deferred consideration	-	(125)
Write down of Private Finance Initiative (PFI) liability	17,945	4,329
Adjusting amounts written out of the Revaluation Reserve	60,616	18,692
	762,338	**729,814**
Capital financing applied in the year:		

Use of the Capital Receipts Reserve to finance new capital expenditure	2,105	10,380
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	31,384	29,914
Application of grants to capital financing from the Capital Grants Unapplied Account	30,463	68,068
Statutory provision for the financing of capital investment charged against the County Fund	26,193	24,151
Capital expenditure charged against the County Fund	15,748	2,893
	105,893	**135,406**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	37	51
Reclassifications – write out waste PFI deferred consideration	(2,672)	(3,306)
Balance at 31 March	**865,596**	**861,965**

Available for Sale Financial Instruments Reserve

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

	2011/12	**2010/11**
	£000	**£000**
Balance at 1 April	(7,159)	-
Upwards revaluation of investments	6,680	-
Downward revaluation of investments not charged to the surplus/(deficit) on the Provision of Services	-	7,159
	(479)	7,159
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-	-
Balance at 31 March	(479)	

Financial Instruments Adjustment Account

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

	2011/12		2010/11	
	£000	**£000**	**£000**	**£000**
Balance at 1 April		**25,622**	**-**	**(83)**
Premiums incurred in year and charged to the Comprehensive Income and Expenditure Statement	-	-	27,092	-
Proportion of premiums incurred in previous financial years to be charged against the County Fund balance	(2,056)	-	(207)	-
Reversal of soft loan fair value adjustment	-	-	-	-
Reversal of previous Landsbanki impairment	-	-	(1,180)	-
Current year Landsbanki impairment	-	-	-	-
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	25,705
Balance as at 31 March	**-**	**23,566**	**-**	**25,622**

The amount by which finance costs charged to the Comprehensive Income and Expenditure Statement (CIES) are different from finance costs chargeable in the year is the net premium incurred in the debt restructure. This will be written down to Comprehensive Income and Expenditure Statement, in accordance with our accounting policies, over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The authority accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed, as the authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2011/12	2010/11
	£000	£000
Balance at 1 April	(765,212)	(1,059,958)
Actuarial gains or (losses) on pensions assets and liabilities	(62,179)	281,902
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(193,106)	(73,630)
Employer's pension contributions and direct payments to pensioners payable in the year	81,002	86,474
Balance at 31 March	**(939,495)**	**(765,212)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the County fund from the Collection Fund.

	2011/12	2010/11
	£000	£000
Balance at 1 April	1,170	(1,255)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	351	2,425
Balance at 31 March	**1,521**	**1,170**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the County fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the County fund Balance is neutralised by transfers to or from the account.

	2011/12	2010/11
	£000	£000
Balance at 1 April	(37,890)	(46,992)
Settlement or cancellation of accrual made at the end of the preceding year	37,890	46,992
Amounts accrued at the end of the current year	(29,432)	(37,890)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8,458	9,101
Balance at 31 March	**(29,432)**	**(37,890)**

55. Long Term Debtors

Long term debts to the authority are shown below:

	31 March 2012	31 March 2011
	£000	£000
Transferred Debt	45,227	47,900
Total	**45,227**	**47,900**

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

56. Deferred consideration

Deferred consideration relates to the difference between the market value of the land transferred at zero value to the contractors as part of the Lancashire Waste PFI schemes and the estimated value of the land subject to PFI restrictions. However, during 2011/12 the waste PFI scheme reached commencement stage and under the accounting regulations the assets, including the land now forms part of the Balance Sheet. The deferred consideration has therefore been written out to nil compared to a balance at 31 March 2011 of £3.263m.

57. Deferred liabilities

Deferred liabilities consist of liabilities which by arrangement are payable beyond the next year at some point in the future, or paid off by annual lump sum over a period of time.

The table below breaks down the amount we owe.

	31 March 2012 £000	31 March 2011 £000
Premiums paid by university	(334)	(365)
Fleetwood Sports College PFI development costs	-	(164)
Purchase of Moor Park High School	(154)	271
Blackpool Borough Council interest in waste PFI assets	-	(552)
Total	**(488)**	**(810)**

The balance of premiums paid by universities arose in 2005 when the University of Central Lancashire and Edge Hill University paid off the balance of debt, managed by us, on assets that they had inherited when they became independent of the County Council.

Because there was some financial disadvantage to us in accepting this repayment, we required the universities to pay premiums to compensate us for the loss. Rather than bring in the whole amount of the premiums to the income and expenditure account in the year we received them, we placed a credit item on the balance sheet and are transferring this credit to the income and expenditure account in equal instalments over 18 years.

Deferred liabilities on the Fleetwood Sports College PFI relate to development costs being transferred to the income and expenditure account over a period of time.

The Moor Park High School item relates to the discharge of a high interest credit liability. At the end of 2006/07 the remaining capital outstanding on this arrangement was repaid prematurely and without penalty to avoid the high rate of interest being paid. The balance will be written down to the income and expenditure over a period of five years, this is the same period as that remaining on the arrangement when it was discharged.

The deferred liability on the Blackpool Borough Council interest in Waste PFI assets is in respect of land transferred to the operator for the waste PFI contract.

Cashflow Statement Notes

58. Net (Surplus) or Deficit on the Provision of Services

2010/11			**2011/12**	
£000	**£000**		**£000**	**£000**
	(128,034)	**Net (Surplus) or Deficit on the Provision of Services**		**(70,275)**
(103,676)		Depreciation & Impairments	(59,939)	
426		Material Impairment losses on Investments debited to surplus or deficit on the provision of services in year	62	
(7,160)		Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c	(19,283)	
1,768		Adjustments for effective interest rates	56,054	
(125)		Net PFI Debtor Adjustments	(3,263)	

9,807		Increase/Decrease in Interest Creditors	(321)	
45,132		Increase/Decrease in Creditors	10,632	
(1,993)		Increase/Decrease in Interest and Dividend Debtors	16	
1,170		Increase/Decrease in Debtors	(4,888)	
438		Increase/Decrease in Inventories	(340)	
116,156		Movement in Pension Liability	1,117	
15,795		Contributions (to)/from Provisions	8,067	
(3,007)		Transferred Debt		
(566)		Other non cash movement		
		Other cash movement	(406)	
(34,507)		Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	(106,956)	
(471,912)		Carrying amount of short and long term investments sold		
52		Movement in Investment Property Values	37	
	(432,202)			**(119,411)**
		<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
100,107		Capital Grants credited to surplus or deficit on the provision of services	126,565	
471,912		Proceeds from the sale of short and long term investments	(2,674,658)	
785		Premiums or Discounts on the repayment of financial liabilities		
13,275		Proceeds from the sale of property plant and equipment, investment property and intangible assets	883	
	586,079			**(2,547,210)**
25,843		**Net Cash Flows from Operating Activities**		**(2,736,896)**

59. Cash Flow Statement - Operating Activities (Interest)

2010/11			2011/12	
£000	£000		£000	£000
(17,993)		Ordinary interest received	(47,459)	
1,768		Other adjustments for differences between Effective Interest Rates and actual interest receivable	58,407	
(5,391)		Opening Debtor	(3,734)	
3,398		Closing Debtor	3,750	
	(18,218)	**Interest Received**		**10,964**
33,359		Interest charge for year	72,510	
		Adjustments for differences between Effective Interest Rates and actual Interest payable	(2,353)	
426		Adjustment for impairment losses on Long & Short Term Investments charged to Interest Payable	62	
6,710		Opening Creditor	2,991	
(3,097)		Closing Creditor	(3,312)	
	37,398	**Interest Paid**		**69,898**

60. Cash Flows from Investing Activities

2010/11			2011/12	
£000	£000		£000	£000
240,429		Property, Plant and Equipment Purchased	390,688	
7,635		Purchase of Investment Properties	-	
(84,623)		Add back new Finance Leases (non cash flow item)	-	
-		Add back PFI assets (non cash flow item)	(245,333)	
(3,177)		Movement on capital creditors	1,478	
	160,264	**Purchase of Property, Plant and Equipment, investment property and intangible assets**		**146,833**
484,279		Purchase of short term investments	2,705,404	
226,830		Purchase of long term investments	42,596	
	711,109	Purchase of short and long term investments		**2,748,000**

	(5,672)	Proceeds from the sale of property plant and equipment, investment property and intangible assets		**(883)**
(471,912)		Proceeds from short term investments		
	(471,912)	Proceeds from short-term and long-term investments		
(10,558)		Other capital cash receipts	(2,681)	
(92,202)		Capital Grants Received	(130,147)	
	(102,760)	Other Receipts from Investing Activities		**(132,828)**
	291,029	**Total Cash Flows from Investing Activities**		**2,761,122**

61. Cash Flows from Financing Activities

2010/11			**2011/12**	
£000	**£000**		**£000**	**£000**
(1,728,011)		Cash receipts of short and long term borrowing	(1,574,053)	
2,425		Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	351	
1,577,539		Repayment of Short-Term and Long-Term Borrowing	1,554,980	
	4,329	Payments for the reduction of a finance lease liability		
	10	Payments for the reduction of a PFI liability		17,956
4,339		Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	17,956	
(143,708)		**Total Cash Flows from Financing Activities**	**(766)**	

62. Makeup of Cash and Cash Equivalents

2010/11			2011/12	
£000	**£000**		**£000**	**£000**
(34,453)		Cash and Bank Balances	(27,772)	
(36,903)		Cash Investments - regarded as cash equivalents	(20,124)	
	(71,356)			**(47,896)**

Other Notes

63. Related parties

In accordance with International Accounting Standard (IAS) 24 *Related Party Disclosures*, our financial statements must draw attention to the possibility that our financial position may have been affected by related parties and by financial transactions with them.

Having identified all organisations with which councillors and members of the Council's senior management team (or a member of their family) have a significant control an examination has been conducted into any transactions that have occurred between them and Lancashire County Council.

The conclusion of the examination is that none of the transactions can be classed as significant to Lancashire County Council.

The government

Central government controls our general activities. It is responsible for providing the legal framework we operate in.

It provides a significant proportion of our funding through grants and sets out the terms for our major dealings with other organisations (for example, Council Tax precepts on district councils). Grants from the government are included in our accounts and in the notes to this statement of accounts.

County Councillors

County Councillors have direct control over our financial and operating policies. Under section 81 the Local Government act 2000, their outside interests are recorded in a formal register, The Register of Interest, which is available for inspection at the office of the Chief Executive, County Hall, Preston. The details of how to view the register can also be found on the council's website at:
http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=969&tab=1

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

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

- Roles with voluntary organisation and charities which may receive grants from the council.

- Roles where they have significant influence/control within Limited Companies that has a contract with the Council.

- Family members that have significant influence/control within any organisation that has dealings with the Council.

Having identified any organisations with which councillors (or a member of their family) have a significant control any transactions with the organisations have been identified and are declared below.

<u>None</u> of the transactions can be classed as significant to Lancashire County Council.

CC Mike France Managing Director of AMJ Ltd, the company received £280 from the supply of stationery and promotional goods.

CC Paul Hayhurst, chairman of Elswick Parish Council, the parish received a one off grant of £15,000.

CC Andrea Kay, the Chair of Wyre Skate Night, the youth division received a 2 year funding grant, £3,050 pa.

CC Mark Perks, has declared the following: a child Welfare Officer for Astley and Buckshaw Juniors FC, the club received 2 grants of totalling £4,000; trustee and chairman for Buckshaw Youth Association, the association received 3 grants totalling £1,700; chairman of New Era Trust, the trust received a one off grant for £15,000

CC Niki Penney, is a County Council representative at Dukes Playhouse, Dukes Playhouse did receive a grant.

CC John Shedwick, an honorary member of Thornton Cleveleys operatic society, the society received a grant for £300.

CC Sam Riches, acting Co-chairperson for Lancaster and District Women's aid (LDWA) up to the end March 2012 and the organisation received a total of £92,156 during the year.

CC Michael Green, is the Vice chairman for Moss Side Community Forum and his mother is a member of the executive. The organisation received 2 grants, £1,400 from Lancashire County Council and £3,900 from Strategic Partnership for South Ribble.

CC David Westley, is also a councillor and cabinet member at West Lancashire Borough Council and that council has entered into a contract with Lancashire County Council to provide services with the contract amount being £90,000. OneConnect Ltd is also providing services as part of a 10 year agreement to West Lancashire Borough Council with an approximate cost of

£1.1 million. The councillor is also a member of Halsall Parish Council and the parish did receive a grant during the year amounting to £6,000.

OneConnect Ltd

There are 2 councillors who are on the board of directors of OneConnect Ltd, a joint venture between Lancashire County Council and BT that has a contractual relationship with the County Council.

County Councillor Geoff Driver
County Councillor Albert Atkinson

Officers

Our senior officers may influence our financial and operating policies. The members of the Management Team have filled in a declaration about their related interest and those of their family. Management Team officers had roles in the following organisations during 2011/12.

Phil Halsall, Chief Executive of Lancashire County Council, Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing) Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Business and Innovation Centre Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, Preston Technology Management Centre Ltd, Preston Vision Ltd, Regenerate Pennine Lancashire Ltd, Blackpool Fylde and Wyre Economic Partnership Limited.

Ian Fisher BA (Hons), the county secretary and solicitor is also secretary to:
Blackpool Bay Area Company Ltd, CX Limited, Blackpool Fylde and Wyre Economic Development Company Limited, LANPAC Limited, LCC Building Schools for the Future Limited, LWS Lancashire Environmental Fund Limited, Lancashire Business and Innovation Centre Limited, Lancashire County Developments (Investments) Limited, Lancashire County Developments (Property) Limited, Lancashire County Developments Limited, Lancashire County Enterprises (Leasing) Limited, Lancashire Education Business Partnership Limited, Lancashire Enterprise Partnership Limited, Lancashire Enterprises (Investments) Limited, Lancashire Sport Partnership Limited, Lancashire Technology Centre Limited, Lancashire Workforce Development Partnership Limited, Lancashire and Blackpool Tourist Board Limited, Marketing Lancashire Limited, Motor Industry Local Authority Network, New Era Trust, Palatine Developments Limited, Pennine Lancashire Enterprise Partnership Limited, Pennine Lancashire Enterprise Partnership Limited, Preston Technology Management Centre Limited, Preston Vision Limited, Public Transport Information Limited, Regenerate Pennine Lancashire Limited, The Clayton Park Conference Centre Limited, The Lancashire Partnership Against Crime Limited, The Lancashire Rosebud (Small Firms) Fund Company Limited and The Via Partnership Limited,

Gill Kilpatrick, the County Treasurer is treasurer to the Lancashire County Pension Fund.

Helen Denton, Executive Director for Children and Young People, also chairs the National School of Sailing.

Richard Jones, Executive Director for Adult and Community Services is the chairman for Lancashire Sport Partnership Limited.

Martin Kelly, Director of Economic Development acts as alternative to the Chief Executive for Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing) Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Business and Innovation Centre Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, Preston Technology Management Centre Ltd, Preston Vision Ltd, Regenerate Pennine Lancashire Ltd, Blackpool Fylde and Wyre Economic Partnership Limited, also as director in Lancashire and Blackpool Tourist Board Ltd, Lancashire Education Business Partnership Limited, Lancashire Technology Centre Limited, The Clayton Park Conference Centre Limited and CX Ltd.

Lancashire County Councils Interest in Other Organisations

As for each year since 2007/08, this year's statement of accounts does not include a set of group accounts. This note includes details of Lancashire County Councils interest in other organisations.

Lancashire County Developments Ltd

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

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

In 2011/12 the company made a net profit before taxation and exceptional items of £4.351million (net loss before taxation of £1.775million in 2010/11). At 31 March 2012 it had net assets of £36.940million (£46.699million at 31 March 2011).

31 March	**2012 £000**	**2011 £000**
Total income	12,145	8,509
Total expenditure	7,794	10,310
Profit (or loss) after tax	4,351	(1,801)

The group's financial position can be summarised as follows.

Fixed assets	26,989	43,187
Net current assets (or liabilities)	9,951	3,512
Total	36,940	46,699
Represented by:		
Capital reserves	13,996	28,062
Investment revaluation reserves	-	-
Retained profits	15,582	11,231

Long-term loans	7,230	7,274
Provisions for liabilities and charges	132	132
Total	36,940	46,699

There is more information about LCDL in its annual report and statement of accounts. Copies of these are available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to LCDL's accounts in the past.

One Connect Limited

One Connect Ltd (OCL) is a joint venture between Lancashire County Council and BT, set up in May 2011. The partnership delivers a range of services for the County Council, including ICT services, customer access and procurement, giving us the best value for money while improving the services the Council provides to the people, schools, businesses and organisations in Lancashire.

Lancashire County Council has 40% shareholding and 40% representation on the board of directors. It is classed as an associate of the County Council.

In 2011/12 the company profit before taxation was £nil. At 31 March 2012 it had net assets of £0 million. For 2011/12 the turnover was £50.897 million, with operating costs of £50.897 million, total current assets were £12.906 million with total liabilities of £12.906 million.

Lancashire County Council recognised revenue of £41.511m from One Connect Limited in respect of contract payments and re-imbursement for payment of seconded staff. The Authority incurred expenditure of £54.112m to One Connect Limited in payment for services provided by the strategic partnership.

There is more information about OCL in its annual report and statement of accounts. Copies of these are available from Companies' House at the cost of £1.00, at the following website www.companieshouse.gov.uk. Due to timing this information is based on unaudited accounts.

CX Ltd (CXL)

CXL was incorporated on 11 January 2007 and began trading on 1 April 2007.

CXL is owned by Lancashire County Council, Blackburn with Darwen Borough Council and Blackpool Council, with the authorities owning shares in the Company in the following proportions: Lancashire County Council 40%; Blackburn with Darwen Borough Council 30%; and Blackpool Borough Council 30%. The voting rights of each authority in general meetings of the company directly reflect their shareholdings. The Cabinet member for Schools and the Executive Director for Children and Young People (or her nominee(s)) sit on the board of CXL, and the County Secretary and Solicitor is the Company Secretary.

In 2011/12 the company made an operational loss before taxation of £0.74 million (a loss before taxation of £0.870 million in 2010/11). At 31 March 2012 it had net liabilities of £0.470million (net liabilities of £0.886million at 31 March 2011). Due to timing this information is based on unaudited accounts, and before any final audit technical adjustments following the final audit closure meeting, however there have been no audit qualifications to CX Ltd accounts in the past.

A copy of the accounts for CX Ltd can be obtained from the CXL registered office: County Hall, Preston, Lancashire PR1 8XJ.

Lancashire Education Business Partnership Limited

This company was incorporated to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. Lancashire County Council is one of three members of the company and controls 33% of the voting rights. The company is limited by guarantee and the liability of members is limited to £1.

In 2010 the Board approved a three year restructuring plan reducing operational costs to secure a foundation for profit and growth in 2012/13.

In 2011/12 the company had net outgoing resources before transfers of £0.537 million (net incoming resources before transfers of £0.05 million in 2010/11) and had net asset of £0.665 million (£1.201 million in 2010/11). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to CX Ltd accounts in the past.

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

Lancashire and Blackpool Tourist Board Ltd

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

The County Council controls 43% of the voting rights, so the organisation is classed as a joint venture of the County Council.

In 2011/12 Lancashire and Blackpool Tourist Board Ltd made a loss on operating activities before taxation of £0.031 million (loss of £0.056 million in 2010/11). At 31 March 2012 it had net assets of £0.269 million (£0.029 million at 31 March 2011). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Lancashire and Blackpool Tourist Board Ltd in the past.

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

LWS Lancashire Environmental Fund Ltd

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

The County Council controls 25% of the voting rights, so the organisation is classed as an associate of the County Council.

The company's accounting year ends on 31 December. In year ending 31 December 2011 LWS Lancashire Environmental Fund Ltd made a surplus of £0.106 million (in year ending 31 December 2010 a deficit of £0.009). At 31 December 2011 net assets were £2.682 million (£2.576 million at 31 December 2010). This information is based on the audited accounts of LWS Lancashire Environmental Fund Ltd. There have been no audit qualifications to the accounts.

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

Public Transport Information Ltd

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

The County Council controls 40% of the voting rights, so the organisation is classed as an associate of the County Council.

The company's accounting year ends on 31 July. For the year ended 31 July 2011, PTI Ltd made a loss before taxation of £0.004million (loss before taxation of £0.004 million in 2009/10) and net assets of £0.074 million (£0.079 million in 2009/10). This information is based on the audited accounts of Public Transport Information Ltd. There have been no audit qualifications in the accounts.

A copy of the accounts can be obtained from companies' house at the cost of £1.00, at the following website www.companieshouse.gov.uk.

New Era Trust Ltd

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

The County Council controls 50% of the voting rights and financial and operating decisions require unanimous consent of parties, so the organisation is classed as a joint venture with the County Council.

In 2011/12 New Era Trust Ltd had net incoming resources before transfers of £0.001 million (net outgoing resources before transfers of £0.017 million in 2010/11) and on 31 March 2012 it had net assets of £0.077 million (£0.077 million in 2010/11). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

A copy of the accounts can be obtained from Jill Tulasiewicz at the following email address Jill.Tulasiewicz@neweratrust.com.

Building Schools for the Future Limited

LCC Building Schools for the Future (BSF) Limited is fully owned by the County Council and it is classed as a subsidiary of the County Council. It manages the council's investment through the Local Education Partnership into companies set up to run BSF Private Finance Initiative projects. The liability of a member is limited to £1.

In 2011/12 Building Schools for the Future Limited had a profit before taxation of £0.024 million (profit before taxation of £0.018 million in 2010/11). On 31 March 2012 it had net assets of £0.046 million (net assets of £0.023 million in 2010/11). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

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

Preston Vision Limited

The company exists to assist, promote, encourage, develop and secure the social, physical, economic, environmental and educational related development of the Preston City centre area and its gateways. It is a company limited by guarantee and the liability of members is limited to £1.

The County Council controls 33% of the voting rights, so the organisation is classed as a joint venture with the County Council.

The company received total grant income totalling £0.6 million for the period up to 31 March 2011. In 2011/12 the retained profit was nil and the net assets were also nil.

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

Lancashire Workforce Development Partnership Limited

This organisation is an employer led Partnership between the Independent Social Care employers in Lancashire and Lancashire County Council, established to improve social care delivery through workforce training and development. Lancashire County Council is the sole member of the company with 100% of the voting rights, so the company is classed as a subsidiary of the County Council. This is a company limited by guarantee and the liability of the council is limited to £1.

In 2011/12 the company made a net profit before taxation of £0.5 million (a loss of £0.298 million in 2010/11) and had net assets of £1.6 million (1.054 million in 2010/11). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

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

Lancashire Sports Partnership Ltd

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 Local Authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college as a Company Limited by Guarantee with a Board of Trustees. The County Council controls 100% of voting rights and it is therefore classed as a subsidiary.

In 2011/12 the company made a loss before taxation of £0.049 million (a profit before taxation of £0.348 million in 2010/11), and total net assets of £0.165 million (£0.189 million in 2010/11). This £0.049 million loss includes a £0.028 million FRS17 valuation exceptional adjustment. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

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

Blackpool Fylde and Wyre Economic Development Company Limited

Blackpool Fylde and Wyre Economic development company Ltd is a company limited by guarantee and exists to promote economic development, and to support inward investment and marketing activity within the Fylde coast area .It also operates under the name of Blackpool Bay Area company . The company members comprise Blackpool Council, Fylde Council, Wyre Council and Lancashire County Council

The County Council controls 25% of the voting rights, so the organisation is classed as an associate of the County Council.

In 2011/12 Blackpool Fylde and Wyre Economic Development Company Ltd made nil profit on operating activities before taxation (nil profit in 2010/11) and nil net assets for 2011/12 and 2010/11. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Blackpool Fylde and Wyre Economic Development Company Ltd in the past.

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

Lancashire Partnership Against Crime Limited

The Lancashire Partnership Against Crime is a registered charity and company limited by guarantee and has been in existence for over 20 years. Working in partnership with hundreds of organisations, large and small, to secure funding for additional community safety and crime reduction measures countywide. In the last 5 years alone over £1 million has been allocated to hundreds of diverse projects including schemes aimed at protecting the vulnerable elderly, reducing incidents of burglary and vehicle crime in addition to engaging with young people to introduce them to positive leisure time activities and divert them away from crime and anti-social behaviour.

The County Council controls 20% of the voting rights, so the organisation is classed as an associate of the County Council.

In 2011/12 Lancashire Partnership Against Crime Ltd had net outgoing resources of £0.005 million (net outgoing resource of £0.301 million in 2010/11) and net assets of £0.027 million (£0.032 million in 2010/11). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Lancashire Partnership Against Crime Ltd in the past.

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

Cumbria Lancashire Education Online Limited

Communication provider for the purchase and supply of I.T. equipment for education. The County Council owns 100% of voting rights and therefore is classed as a subsidiary of the Council.

In 2011/12 CLEO Limited had profit (before taxation) of nil and nil net assets. Due to timing this information is based on unaudited accounts, this company is now to be wound up.

Lancashire Enterprise Partnership Ltd

This company was incorporated in April 2011 to promote, oversee and facilitate the economic development, growth and regeneration of the administrative areas of Lancashire, Blackburn with Darwen and Blackpool. It is a Government-endorsed partnership between the private and public sectors with a board comprising representatives from some of Lancashire's biggest employers, chambers of commerce, local councils and academic institutions.

Chaired by Edwin Booth, Chairman of E H Booth & Co Ltd, and comprising 16 directors, the LEP serves as the focal point for directing economic development in the county and is hugely influential in the work of councils and other agencies responsible for stimulating economic growth.

A wholly owned company of the County Council, the LEP is a private company limited by guarantee and has no share capital. It does not hold any assets, resources or contracts nor does it employ staff.

The LEP has an important role in drawing investment into Lancashire through central government initiatives such as the Growing Places Fund, from which the LEP has been allocated £19,378,944. The County Council acts as the accountable body for the LEP for the Growing Places Fund, though the LEP approves investment for suitable schemes with the support of County Council officers.

For further information, please contact the Company Secretary, Ian Fisher, at PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ. Information is also available from Companies House.

64. Contingent liabilities

These are liabilities which relate to past events, the effects and costs of which remain uncertain. Because of this uncertainty, no entries have yet been made in the accounts.

Details of these liabilities are set out below:

Single regeneration budget grant - Some of this grant may have to be repaid. An amount of up to £489,000 is at risk, generally due to a shortage of information to support the claims. Continuing efforts are being made to locate additional information where appropriate and to reduce this liability.

Waste disposal contractor – A waste disposal contractor threatened to bring a legal action against the Council. The claim relates to additional costs they consider they were entitled to under their contract with the Council. The Council has refused to make any such payments and has for a number of years been awaiting the issue of court proceedings. If proceedings are issued we intend to vigorously defend them. At this stage it is not possible to provide an accurate estimate of any costs which may arise out of this claim.

65. Contingent Assets

Lancashire County Council does not have any Contingent assets in 2011/12

66. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

Local Government Pension Scheme – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The Teachers' Pension Scheme – this is an unfunded defined benefit final salary scheme administered by Lancashire County Council , meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions relating to retirement benefits

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

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

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

	Local Government Pension Scheme	Local Government Pension Scheme	Teachers Pension Scheme	Teachers Pension Scheme
	2011/12	**2010/11**	**2011/12**	**2010/11**
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**
Cost of Services :				
Current service cost	58,406	67,372	-	-
Past service cost	24	(145,522)	-	(7,941)
Curtailment cost	(2,015)	10,663	270	314
Financing and Investment Income and Expenditure				
Interest cost	129,357	141,122	7,064	7,622
Expected return on scheme assets	(113,221)	(103,312)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	72,551	(29,677)	7,334	(5)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Actuarial (gains) and losses	170,817	(181,501)	4,583	2,911
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	243,368	(211,178)	11,917	2,906
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with IAS 19	72,551	29,677	7,334	5
Actual amount charged against the general fund balance for pensions in year				
Employers contributions payable to the scheme	70,246	75,890	10,756	10,584
Retirement benefits payable to pensioners	-	-	-	-

In 2011/12 we paid £50.213 million to the Department for Education for teachers' pension costs. This represents 15.4% of teachers' pensionable pay (£51.7 million and 14.8% in 2010/11).

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2011/12 these amounted to £8.5 million, representing 2.6% of pensionable pay (£8.4 million and 2.4% in 2010/11).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £175.400 million (£178.590 million gain in 2010/11) were included in the Statement of Other Comprehensive Income. The cumulative amount of actuarial gains and losses recognised in the Statement of Other Comprehensive Income is a loss of £276.871 million.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Teachers Pension Scheme	
	2011/12	2010/11	2011/12	2010/11
	£000	£000	£000	£000
1 April	2,372,019	2,522,504	136,200	143,878
Current service cost	58,406	67,372	-	-
Interest cost	129,357	141,122	7,064	7,622
Contributions by scheme participants	20,525	22,155	-	-
Actuarial (gains) and losses	85,816	(151,811)	4,583	2,911
Benefits paid	(105,257)	(94,464)	(10,756)	(10,584)
Curtailments	6,705	10,663	270	314
Settlements	(12,238)	-	-	-
Past service costs/(gains)	24	(145,522)	-	(7,941)
31st March	**2,555,357**	**2,372,019**	**137,361**	**136,200**

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme

	2011/12	2010/11
	£000	£000
1 April	1,743,007	1,606,424
Expected rate of return	113,221	103,312
Actuarial gains and (losses)	(85,001)	29,690
Settlements	(3,518)	-
Employer contributions	70,246	75,890
Contributions by scheme participants	20,525	22,155
Benefits paid	(105,257)	(94,464)
31 March	**1,753,223**	**1,743,007**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £28.220 million (2010/11 gain of £129.873 million).

Scheme history

	2007/8	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000
Present value of scheme liabilities:					
Local Government Pensions Scheme	(2,144,466)	(1,828,200)	(2,522,504)	(2,372,019)	(2,555,357)
Teachers Pensions Scheme	(142,023)	(121,972)	(143,878)	(136,200)	(137,361)
Fair value of assets in the Local Government Pension Scheme	1,512,157	1,202,529	1,606,424	1,743,007	1,753,223
Surplus/(deficit) in scheme					
Local Government Pension Scheme	(632,309)	(625,671)	(916,080)	(629,012)	(802,134)
Teachers Pension Scheme	(142,023)	(121,972)	(143,878)	(136,200)	(137,361)
Total	**(774,332)**	**(747,643)**	**(1,059,958)**	**(765,212)**	**(939,495)**

*The council has elected not to restate fair value of scheme assets for 2007/08 as permitted by International Accounting Standard (IAS 19), (as revised), nor to restate 2007/08 fair values on the grounds of materiality.

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £939.495 million in 2011/12 has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in net assets of £1,029.482 million.

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

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £57.091 million. Expected contributions for the Teachers Pension Scheme in the year to 31 March 2013 are £46.772 million.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Teachers Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010. The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Teachers Pension Scheme	
	2011/12	**2010/11**	**2011/12**	**2010/11**
Long-term expected rate of return on assets in the scheme				
Equity investments	7.25%	7.50%	-	-
Bonds	4.18%	4.75%	-	-
Other	4.67%	4.83%	-	-
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	21.7 years	21.6 years	21.7 years	21.6 years
Women	24.3 years	24.2 years	24.3 years	24.2 years
Longevity at 65 for future pensioners:				
Men	23.1 years	23.0 years	23.1 years	23.0 years
Women	25.9 years	25.8 years	25.9 years	25.8 years
Rate of inflation (CPI)	2.50%	2.90%	2.30%	2.80%
Rate of increase in salaries	4.50%	4.90%	4.50%	4.90%
Rate of increase in pensions	2.50%	2.90%	2.30%	2.80%
Rate for discounting scheme liabilities	4.90%	5.50%	4.60%	5.40%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%

The Teachers Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the local assets held:

	31 March 2012	31 March 2011
	%	%
Equity investments	58.0	64.0
Bonds	20.0	21.0
Other assets	22.0	15.0
	100.0	100.0

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between expected and actual return on assets	(6)	34	20	2	(5)
Experience gains and losses on liabilities	1	0	0	(6)	3

67. Events after the balance sheet date

Date on which the Financial Statement were authorised for issue

The Statement of Accounts was authorised for issue by the County Treasurer on 28 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Other Fund and Reserves

Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area.

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

The capital accounts in the table below show the value of the investment money that has been bequeathed.

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

The movements on fund balances are summarised below.

	Adult and Community Services 2011/12 £	Children and Young People 2011/12 £	Other 2011/12 £	Total 2011/12 £	Total 2010/11 £
CAPITAL ACCOUNTS					
Balances at 1 April	3,051	175,392	813	179,256	175,676
Net Movement in funds	-27	-381	-	-408	3,580
Balances at 31 March	3,024	175,011	813	178,848	179,256
REVENUE ACCOUNTS					
Balances at 1 April	6,193	43,145	4,570	53,908	55,038
Income received	164	6,770	8,009	14,943	16,900
	6,357	49,915	12,579	68,851	71,938
Payments during the year	-	1,650	3,549	5,199	18,030
Balances at 31 March	6,357	48,265	9,030	63,652	53,908
AGGREGATE BALANCES at 31 March (Capital and Revenue)	9,381	223,276	9,843	242,500	233,164

Lancashire County Pension Fund

Accounts
2011-2012

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

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

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

The Responsibilities of the Treasurer to the Pension Fund

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

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

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;

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

The Statement of Accounts relate to the financial year ended 31 March 2012 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
26 September 2012

Fund Account

	Note	2011/12 £m	2010/11 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	209.3	227.2
Transfers in	7	11.1	15.6
		220.4	242.8
Benefits	8	219.1	214.5
Payments to and on account of leavers	9	13.7	12.8
Administrative expenses	10	3.8	3.6
		236.6	230.9
Net additions from dealings with members		**(16.2)**	**11.9**
Return on investments			
Investment income	11	118.8	89.3
Profit and loss on disposal of investments and change in market value of investments	14	(7.9)	238.8
Investment management expenses	21	(8.3)	(8.0)
Net return on investments		**102.6**	**320.1**
Net increase (decrease) in the fund during the year		**86.4**	**332.0**

Net Asset statement for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Investment assets	14	4361.4	4,282.1
Investment liabilities	14	(1.5	(0.9)
Current assets	22	23.3	21.6
Current liabilities	24	(3.2)	(9.2)
Net assets of the fund available to fund benefits at the period end		4,380	4,293.6

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2012 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Sam Chapman

Chairman of the Audit Committee

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The county council is the reporting entity for this pension fund. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2011/12 cash inflows during the year consisted of £339.2 million and cash outflows were £244.9 million, representing a net cash inflow of £94.3 million (compared with an inflow of £93.2 million in the previous year). Benefits payable amounted to £219.1 million and were partially offset by net investment income of £118.8 million (including £19.4 million accrued dividends); contributions of £209.3 million and transfers in of £11.1 million produced the positive cash inflow.

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

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

		Number at 31 March 2012	Number at 31 March 2011
(1)	Active Scheme Members		
	Scheduled Bodies	46,422	47,912
	Admitted Bodies	3,716	3,781
	Total	**50,138**	**51,693**
(2)	Pensioners		
	Pensions in Payment	39,933	37,632
	Preserved Pensions	47,526	44,928
	Total	**87,459**	**82,560**

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
All Saints CE Primary School Academy
Barnoldswick Town Council
Belthorn Primary (Academy)
Bishop Rawstorne High Academy
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Bowland High Academy Trust
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Community Academy
Garstang Town Council
Hambleton Primary Academy
Hodgson Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancashire Workforce Development Partnership
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Lancaster RGS (Academy)
Lostock Hall Academy Trust
Myerscough College
Nelson & Colne College
Parbold Douglas CE Academy
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd

Admitted Bodies

Ribble Valley Borough Council
Ripley St Thomas CE (Academy)
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Christopher's CE (Academy)
St Mary's College, Blackburn
St Michael's CE High (Academy)
St Wilfrid's CE Academy
Tarleton Academy
University of Central Lancs
West Lancs District Council
Westcliff Primary Academy
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (former solar contracts)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)
Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit

Admitted Bodies

Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
Creative Support Ltd (Midway)
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd
Hyndburn Homes Ltd
I Care
Jewson Ltd
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley
Liberata UK Ltd (Pendle)
Lytham School Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawsthorne)
Mellors Catering Services Ltd (Hambleton Primary)
Mellors Catering Services Ltd(Worden Sports College)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd NSL Ltd (Lancaster)
NSL Ltd
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd
Pendle Leisure Trust Ltd
Places for People Ind Supp Ltd
Preston Care and Repair
Preston Council for Voluntary Services
Progress Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Lancaster Royal Grammar School (boarding)
Lancs South East Probation Committee
Lancs South West Probation Committee
Rossendale Leisure Trust
Signpost MARC Ltd
South Ribble Community Leisure Ltd
Sunguard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employees

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool and Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley and Pendle Joint Transport Committee
Burnley and Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancashire Development Corporation
Clitheroe Town Council
Connaught Environmental Ltd (Blackpool BC)
Connaught Enviromental Ltd (Blackpool Coastal)
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Development Associations
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport
Kirkham Grammar School (Boarding)
Lancashire County Enterprise
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning

Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council
Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawsthorne)
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Ripley)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other
Rossendale Transport Ltd
Blackpool Transport Services Ltd
Membership restricted to employees "deemed" at deregulation in 1986)

2. **Basis of Preparation**

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2011/12 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, value on an International Accounting Standard (IAS) 19 basis, is disclosed in note 31 of these accounts.

3. **Accounting Policies**

Fund Account revenue recognition

- **Contribution income**

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

Employers' augmentation contributions and pensions strain contributions are accounted for the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

- **Transfers**

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

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

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

- **Investment Income**

i. Interest income

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

ii. Dividend income

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

iii. Distribution from pooled funds

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

iv. Rental income

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

Fund Account –expense items

- **Benefits payable**

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

- **Taxation**

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

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

- **Investment Manager expenses**

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

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

  The fund does not currently pay performance related fees to its investment managers. When an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2011/12 £1,262,317.80 of fees is based on such estimates (2010/11 £1,294,239.45).

Net asset statement

- **Financial Instruments**

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

  On initial recognition the Fund is required to classify financial assets and liabilities into held to maturity investments, available for sale financial assets, held for trading, designated at fair value through profit and loss or loans and receivables.

  The assets and liabilities held by Lancashire County Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and liabilities at amortised cost.

  Financial instruments at fair value through profit or loss

  Financial assets may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the fund manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

  Loans and receivables

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

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

Financial liabilities at amortised cost

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

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2012. The fair value is the current bid price for quoted securities and unitised securities.

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

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

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

The methodologies adopted in valuing financial instruments are explained in greater detail in note 18.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2012. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

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

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2012 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.
Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin.

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

- **Cash and cash equivalents**

Cash comprises of cash in hand and demand deposits.

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

- **Financial liabilities**

The fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

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

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

As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (Note 31).

- **Additional voluntary contributions**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

Securities Lending

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

Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation

Contingent liabilities and contingent assets

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

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

4. **Critical Judgements in applying accounting policies**

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £287.5 million (£201.8 million at 31 March 2011).

Pension Fund Liability

The pension fund liability is calculated every three years by an appointed actuary, with annual updates in intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with actuary and are summarised in note 31. This estimate is subject to significant variances based on change to the underlying assumptions.

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

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

The items in the Pension Fund's net asset statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £287.5m. There is a risk that this investment may be under or overstated in the accounts.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £580 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £90m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £130m.

6. **Contributions receivable**

	2011/12 £m	2010/11 £m
Employers' contributions		
County Council	68.5	70.9
Scheduled Bodies	75.7	85.6
Admitted	12.9	14.3
	157.1	170.8
Employees' contributions		
County Council	20.5	22.5
Scheduled Bodies	26.8	28.8
Admitted	4.9	5.1
	52.2	56.4
Total contributions	209.3	227.2

Within the employee contributions figure for 2011/12, £242,830.87 is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. **Transfers in**

	2011/12 £m	2010/11 £m
Individual transfers in from other schemes	11.1	15.6
Bulk transfers in from other schemes	-	-
	11.1	15.6

8. **Benefits**

	2011/12 £m	2010/11 £m
Pensions	163.6	149.2
Lump sum retirement benefits	51.0	60.9
Lump Sum death benefits	4.5	4.4
	219.1	214.5

9. Payments to and on account of leavers

	2011/12 £m	2010/11 £m
Refunds to members leaving service	0.1	0.1
Contributions equivalent premium	(0.1)	(0.0)
Individual transfers to other schemes	13.7	12.7
	13.7	12.8

10. Administrative expenses

	2011/12 £m	2010/11 £m
Administration and processing	3.4	3.3
Audit fee	0.1	0.1
Legal and other professional fees	0.3	0.2
	3.8	3.6

11. Investment income

	2011/12 £m	2010/11 £m
Fixed interest securities	27.7	23.9
Equity dividends	46.5	29.6
Index linked securities	2.8	4.6
Pooled investment vehicles	5.5	0.9
Rents from properties	26.0	23.3
Interest on cash deposits	0.7	1.5
Other	9.6	5.5
	118.8	89.3

12. Net rents from Properties

	2011/12 £m	2010/11 £m
Rental Income	26.0	23.3
Direct operating expenses	(1.2)	(1.6)
Net gain/loss	24.8	21.7

13. **Stock Lending**

Northern Trust is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2011/12 was £467,745 (2010/11 £178,513)

Securities on loan at the 31st March 2012 were £263m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £67m of equities and £196m of bonds.

Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £276m comprising all of government bonds.

14. **Reconciliation of movements in investments and derivatives**

	Market Value at 1 April 2011	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2012
	£m	£m	£m	£m	£m
Fixed interest securities	559.1	696.0	-657.8	26.1	623.4
Equities	1,735.1	401.0	-441.9	-80.5	1,613.7
Index linked securities	141.0	120.9	-159.1	21.8	124.6
Pooled investments	1,395.5	399.2	-359.6	31.2	1,466.3
Property	397.5	24.2	-34.1	-3.7	383.9
	4,228.2	1,641.3	-1,652.5	-5.1	4,211.9
Derivative contracts:					
Futures	0.9	41.4	-39.3	-2.8	0.2
Forward currency contracts	0.9				1.6
Purchased/written options					
Cash deposits	36.6				126.8
Other investment balances	14.6				19.4
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	4,281.2				4,359.9

	Market Value at 1 April 2010 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2011 £m
Fixed interest securities	448.1	406.4	-295.5	0.1	559.1
Equities	1,011.7	1,090.4	-442.2	75.2	1,735.1
Index linked securities	103.2	50.9	-15.9	2.8	141.0
Pooled investments	1,962.2	154.9	-872.6	151.0	1,395.5
Property	306.1	89.9	-9.1	10.6	397.5
	3,831.3	1,792.5	-1,635.3	239.7	4,228.2
Derivative contracts:					
Futures	-	4.1	-2.3	-0.9	0.9
Forward currency contracts	0.1				0.9
Purchased/written options					
Cash deposits	106.2				36.6
Other investment balances	12.7				14.6
Amounts receivable from sales of investments					
Amounts payable for purchases of investments					
	3,950.3				4,281.2

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2011/12 amounted to £2,054,422 (2010/11: £2,316,511).

The investment assets at 31 March 2012 are managed by seven external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Manager	2011/12 £m	%
Legal & General Investment Management	1,057.4	24
Newton Investment Management	615.6	14
J P Morgan Asset Management	501.4	12
UBS Global Asset Management	672.7	15
Knight Frank	383.9	9
Capital Dynamics	222.4	5
Mellon Transition Management	617.1	14
In-House	289.4	7
	4,359.9	100

	2011/12 £m	2010/11 £m
Fixed Interest Securities		
UK public sector quoted	234.3	179.9
UK corporate bonds quoted	289.0	352.3
Overseas public sector	-	-
Overseas corporate bonds	100.1	26.9
	623.4	559.1

	2011/12 £m	2010/11 £m
Equities		
UK quoted	772.8	833.1
Overseas quoted	840.9	902.0
	1,613.7	1,735.1

	2011/12 £m	2010/11 £m
Index Linked Securities		
UK quoted	124.6	141.0
	124.6	141.0

	2011/12 £m	2010/11 £m
Pooled Investment Vehicles		
Managed/Unitised funds – UK Equities	537.0	448.9
Overseas Equities	400.3	423.2
Public Sector Bonds	-	-
Corporate Bonds	-	141.9
Index Linked	-	32.2
Unit trusts – UK Equities	-	22.3
Overseas Equities	-	4.8
UK Fixed Income Funds	192.2	-
Overseas Fixed Income Funds	49.3	-
Other pooled investment vehicles		
-UK	-	5.9
Overseas	-	44.9
Private Equity investments	287.5	201.8
Hedge Fund of Funds	-	69.6
	1,466.3	1,395.5

	2011/12 £m	2010/11 £m
Properties		
UK – Freehold	292.9	318.9
UK – Long Leasehold	91.0	78.6
	383.9	397.5

	2011/12 £m	2010/11 £m
Balance at start of the year	397.5	306.1
Additions	24.2	89.9
Disposals	(34.1)	(9.1)
Net gain/loss on fair value	(3.7)	10.6
Transfers in/out	-	-
Other changes in fair value	-	-
Balance at the end of the year	383.9	397.5

	2011/12 £m	2010/11 £m
Derivatives Contracts		
Futures Contracts	0.2	0.9
	0.2	0.9

Type of Future	Expiration	Economic Exposure £m	Asset £m	Liability £m
UK gilt exchange traded	3 months	9.6		-
Hang Seng (HKG)	1 month	4.7		0.1
MSCI Singapore Index	1 month	4.4		-
SPI 200 Index	3 months	12.5	0.3	
Total			**0.3**	**0.1**

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought £m EQV	Sold £m EQV	£m
Investment assets			
6 months and under	108.6	105.5	3.1
Investment liabilities			
6 months and under	58.2	59.7	(1.5)

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

	2011/12 £m	2010/11 £m
Cash Deposits		
Sterling	110.9	33.5
Foreign currency	15.9	3.1
	126.8	36.6

15. **Financial Instruments classification**

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

2012	Designated at fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	623.4	-	-
Equities	1,613.7	-	-
Index linked securities	124.6	-	-
Pooled investment vehicles	1,466.3	-	-
Derivative contracts	3.4	-	-
Cash deposits	-	126.8	-
Other investment balances	19.4	-	-
Debtors	-	23.3	-
Total Financial Assets	**3,850.8**	**150.1**	**-**
Financial liabilities			
Derivative contracts	1.6	-	-
Creditors	-	-	3.2
Total Financial Liabilities	**1.6**	**-**	**3.2**

2011	Designated at fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets		-	-
Fixed interest securities	559.1	-	-
Equities	1,735.1	-	-
Index linked securities	141.0	-	-
Pooled investment vehicles	1,395.5	-	-
Derivative contracts	2.7	-	-
Cash deposits	-	36.6	-
Other investment balances	14.6	-	-
Debtors	-	21.6	-
Total Financial Assets	**3,848.0**	**58.2**	**-**
Financial liabilities			
Derivative contracts	0.9	-	-
Creditors	-	-	9.2
Total Financial Liabilities	**0.9**	**-**	**9.2**

16. Net gains and losses on financial instruments

	2012 £m	2011 £m
Financial assets		
Fair value through profit and loss	7.9	238.8
Loans and Receivables	-	-
Financial Liabilities		
Fair value through profit and loss	-	-
Loans and Receivables		
Financial liabilities at amortised cost	-	-
Total	**7.9**	**238.8**

17. Financial Instruments – Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date.

	Carrying Value 2012 £m	Carrying value 2011 £m	Fair Value 2012 £m	Fair Value 2011 £m
Financial assets				
Trading and other financial assets at fair value through profit and loss	3,347.5	3,284.0	3,850.8	3,848.0
Loans and Receivables	150.1	58.2	150.1	58.2
Total Financial Assets	**3,497.6**	**3,342.2**	**4,000.9**	**3,906.2**
Financial Liabilities				
Trading and other financial assets at fair value through profit and loss	1.6	0.9	1.6	0.9
Financial liabilities at amortised cost	3.2	9.2	3.2	9.2
Total Financial Liabilities	**4.8**	**10.1**	**4.8**	**10.1**

18. **Financial Instruments – Valuation**

Valuation of financial instruments carried at fair value

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

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

2012	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	3563.3	-	287.5	3850.8
Loans and Receivables	150.1	-	-	150.1
Total Financial assets	**3713.4**	**0**	**287.5**	**4000.9**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	1.6	-	-	1.6
Financial liabilities at amortised cost	3.2	-	-	3.2
Total Financial assets	**4.8**	**0**	**0**	**4.8**

2011	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	3,576.6	-	271.4	3,848.0
Loans and Receivables	58.2	-	-	58.2
Total Financial assets	**3,634.8**	**0**	**271.4**	**3,906.2**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.9	-	-	0.9
Financial liabilities at amortised cost	9.2	-	-	9.2
Total Financial assets	**10.1**	**0**	**0**	**10.1**

19. **Nature and extent of risks arising from Financial Instruments**

Risk and risk management

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

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

a) Market risk

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

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

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

Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2012-13 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	5.7%
Overseas bonds	11.8%
UK equities	15.3%
Overseas equities	14.8%
Index linked Gilts	7.6%
Cash	0%
Alternatives	7.7%
Property	9.4%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				
Investment portfolio assets:				
UK bonds	695.7	5.7%	735.3	656.1
Overseas bonds	100.0	11.8%	111.8	88.2
UK equities	1341.4	15.3%	1547.3	1135.6
Overseas equities	1236.9	14.8%	1420.3	1053.5
Index linked gilts	166.9	7.6%	179.6	154.2
Cash	147.9	0.0%	147.9	147.8
Alternatives	287.4	7.7%	309.6	265.2
Property	383.8	9.4%	419.7	347.9
Total asset available to pay benefits	4360.0		4871.5	3848.5

Asset Type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents				

Investment portfolio assets:				
UK bonds	694.1	5.7%	733.6	654.6
Overseas bonds	26.9	11.8%	30.1	23.7
UK equities	1344.6	15.3%	1551.0	1138.3
Overseas equities	1385.4	14.8%	1590.8	1180.0
Index linked gilts	177.6	7.6%	191.2	164.1
Cash	53.8	0.0%	53.8	53.8
Alternatives	201.8	7.7%	217.4	186.2
Property	397.5	9.4%	434.6	360.3
Total asset available to pay benefits	4281.7		4802.5	3761.0

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2012	As at 31 March 2011
	£m	£m
Cash and cash equivalents	126.8	36.6
Fixed interest securities	815.6	700.9
Total	**942.4**	**737.5**

Interest rate risk sensitivity analysis

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

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

Asset Type	Carrying amounts as at 31 March 2012	Change in year in net assets available to pay benefits

		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	126.8	1.3	(1.3)
Fixed interest securities	815.6	8.1	(8.1)
Total change in asset available	**942.4**	**9.4**	**(9.4)**

Asset Type	**Carrying amounts as at 31 March 2011**	**Change in year in net assets available to pay benefits**	
		+100BPS	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	36.6	0.4	(0.4)
Fixed interest securities	700.9	7.0	(7.0)
Total change in asset available	**737.5**	**7.4**	**(7.4)**

Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end:

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Asset value as at 31 March 2011**
	£m	**£m**
Overseas Equities	1236.9	1385.4
Overseas Bonds	100.0	26.9
Overseas Alternatives	187.9	169.8
Overseas Pooled	449.6	
Total overseas assets	1974.4	1582.1

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 9.7% (as measured by one standard deviation).

A 9.7% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,236.9	1357.0	1,116.8
Overseas Bonds	100.0	109.7	90.3
Overseas Alternatives	187.9	206.2	169.7
Overseas Pooled	449.6	493.3	406.0
Total change in assets available	1,974.4	2,166.2	1,782.8

Currency exposure – asset type	**Asset value as at 31 March 2011**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,385.4	1,520.3	1,250.5
Overseas Bonds	26.9	29.5	24.3
Overseas Alternatives	0.0	0.0	0.0
Overseas Pooled	169.8	186.3	153.3
Total change in assets available	1,582.1	1,736.1	1,428.1

b) Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2012 was £126.9 million (31 March 2011: £36.6 million. This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2012	Balances as at 31 March 2011
		£m	£m
Money market funds			
Bank of New York Mellon	Aa3	-	24.2
Bank deposit accounts			
Ulster Bank	Baa2	5.0	5.0
Northern Trust	A1	51.7	
Bank of New York Mellon	Aa3	0	5.2
Bank Current Accounts			
Natwest Account	A3	70.2	2.2
Total		**126.9**	**36.6**

c) Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2012 are due within the one year.

d) Refinancing risk

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

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

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme

(Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2011 to 31 March 2012 for Prudential and 1 September 2010 to 31 August 2011 for Equitable Life.

Additional Voluntary Contributions

	Equitable life £m	Prudential £m	Total £m
Value at the start of the year	1.4	15	16.4
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	3.7	3.8
Expenditure (incl. Benefits, transfers out, change in market value)	(0.3)	(4.5)	(4.8)
Value at the end of the year	1.2	14.2	15.4

21. Investment management expenses

	2011/12 £m	2010/11 £m
Administration, management and custody	6.7	6.2
Performance measurement service	0.1	0.1
Other advisory fees	1.5	1.7
	8.3	8.0

22. Current assets

	2011/12 £m	2010/11 £m
Contributions due from: Employers	10.4	13.3
Members	2.4	2.6
Transfer values receivable	-	-
Sundry Debtors	-	-
Cash balances	-	-
Debtors: bodies external to general government	10.5	5.7
	23.3	21.6

23. **Analysis of debtors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	5.5	7.3
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	17.8	14.3
	23.3	21.6

Included within the contributions due from employers figure is £2.4 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

24. **Current liabilities**

	2011/12 £m	2010/11 £m
Unpaid benefits	2.8	7.7
Accrued expenses	0.4	1.5
	3.2	9.2

25. **Analysis of creditors**

	2011/12 £m	2010/11 £m
Central government bodies	-	-
Other local authorities	(1.2)	(2.8)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	4.4	12.0
	3.2	9.2

26. **Contingent Asset and Liability**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

27. **Contractual Commitments**

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2012 being £287.5m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2012 are £231.7m.

28. **Related Party Transactions**

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

- At 31 March 2012, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 66 scheduled and 154 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.
- The Pension Fund Committee comprises 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire Leaders Group, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2011/12. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

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

The council incurred costs of £2.9 million (2010/11: £2.9 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £68.5 million to the fund in 2011/12 (2010/11:£70.9m million). All monies owing to and due from the fund were paid in year.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire Council County. During the year to 31 March 2012, the fund had an average investment balance of £136.8 million.

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29. **Impairment of Icelandic Investment**

Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki when it collapsed in October 2008. The Pension Fund was one of many UK and Dutch organisations with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that the Pension Fund will recover 100% of their deposits, subject to potential future exchange rate fluctuations.

The winding up board made its first distribution on 7th December 2011and a second distribution on 25th May 2012. Approximately 42% of the total claim has now been repaid.

The table below shows the combined amount of the distributions and the amount outstanding.

	£
Claim	
Principal	2,486,996.66
Interest	36,086.66
Total Claim	2,523,083.32
Distributions received to date:	
Principal	1,035,035.92
Interest	15,018.51
Total Distributions	1,050,054.43
Claim Outstanding	1,473,028.89

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

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

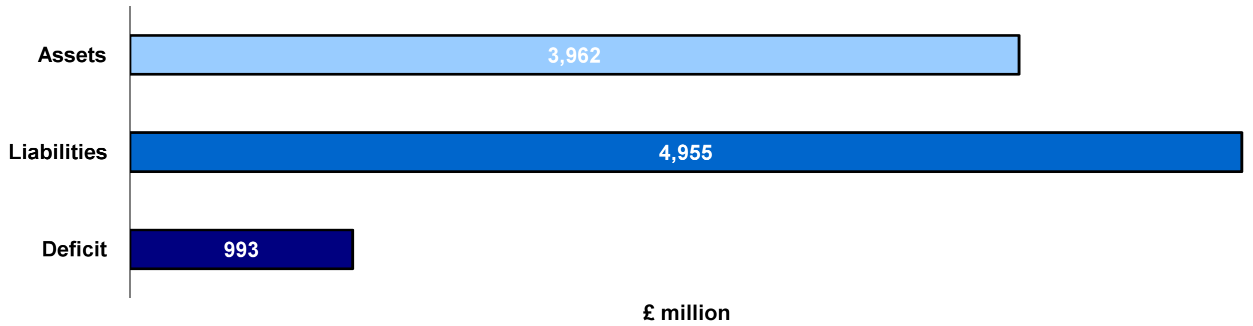
30. **Funding arrangements**

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £3,962 million represented 80% of the Fund's past service liabilities of £4,955 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

31. Actuarial Present Value of Promised Retirement Benefits for the purpose of IAS 26

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £4,942 million

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2012

32. Statement of Investment Principles

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at http://www.yourpensionservice.org.uk.

Glossary

Accounting Policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary
An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses
A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Agency services
Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation
An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation
A contribution to or from a financial reserve.

Audit qualification
A comment made by the auditors if they are not completely satisfied with the accounts.

Budget
A statement which reflects the County Council's policies in financial terms and which sets out its spending plans for a given period.

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors
Amounts owed by the County Council for spending on buying or improving assets.

Capital expenditure
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capitalisation
The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the authority for a period of more than one year.

Capital investment
Money invested in capital projects.

Capital projects
Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the County Council's borrowings or to finance new capital expenditure.

Capital schemes
Another term for 'capital projects'.

Capitalise
To treat as capital expenditure rather than revenue expenditure.

Capital elements
Various items of costs e.g. materials and interest payments.

Capital funding
Money to support spending on capital projects.

Capital receipts
Amounts received from the sale of capital assets. These can only be used for 'capital purposes' – to repay an existing debt or to finance new capital expenditure. Amounts received which have not yet been used are referred to as 'capital receipts unapplied'.

Capital reserves
Amounts set aside to support future capital projects.

Capital value
Amount spent on capital.

Cash balance
Cash available to invest on the money market.

Cash Equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions
Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items
Central overheads e.g. payroll costs.

Change in Accounting Estimate
An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

Class of tangible non current assets
The classes of tangible non current assets required to be included in the accounting statements are:

Operational assets:

- Council dwellings.
- Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets – these are inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Examples of infrastructure assets are maintenance of highways and footpaths.
- Community assets – these are assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Non Operational Assets:

- Surplus asset
- Assets under construction

CIPFA
The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund
The system used by district and borough councils to keep Council Tax separate from their own accounts. The amount in the collection fund each year is fed into the Council Tax calculation for the following year.

Construction Contract
A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities
Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Contributions equivalent premium
Money that is repaid to the DSS when someone opts out of the county pension scheme and rejoins the state scheme. All benefits are repaid as if that person had never left the state scheme.

Corporate and democratic core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to the services.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Council Tax precept
The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The County Council's Council Tax income is charged through a precept on the district councils' collection funds. (The Environment Agency also charges the County Council a precept for flood prevention purposes).

County Fund
The main revenue fund used to provide County Council services (also known as the 'County fund'). Income to the fund consists of the county precept on the collection funds, government grants and other income.

Creditors
Amounts owed by the County Council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)
The increase in the County Council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption
This is where a debt is repaid early.

Debtors
Amounts owed to the County Council which had not been paid by the date of the balance sheet.

Deferred charge

Capital expenditure which does not produce an asset that is controlled by the County Council – for example, grants to other authorities for capital purposes.

Deferred credit
Money received but not yet reported as income in the revenue account.

Deferred liabilities
Debts to be settled some time in the future, but the actual date is not certain.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)
The County Council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)

An organisation set up within the County Council to carry out certain activities subject to competitive tendering.

Employer's pension contributions
Payments to the pension scheme made by the County Council for current employees.

Exchange Transactions
The authority receives assets or services or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services and use of assets) to another entity in exchange.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease
A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial year
The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges
Repayments on amounts loaned to the County Council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument
A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

General Fund
See 'County Fund'.

Global custodian
A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

Government grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost
The cost of an asset at the time it was bought.

Impairment
This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Infrastructure assets
Highways fixed assets – for example, roads and bridges.

Intangible assets
Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

Interest cost (pensions)
The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Investing Activities
The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment Property
Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

Landfill Allowance Trading Scheme (LATS)
The scheme allocates tradable landfill allowances to each waste disposal authority in England and authorities can buy, sell or carry forward landfill allowances depending on usage requirements.

Local Authority Business Growth Incentive Scheme (LABGI)
The Local Authority Business Growth Incentives Scheme provides an incentive for local authorities to promote economic growth in the area by allowing them to retain a proportion of any increase in business rates revenues.

Local Public Service Agreement (LPSA)
Government initiative whereby demanding performance targets are set to deliver improvements for local people through partnerships with district councils and other organisations.

Market value
The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision
The minimum amount (as laid down in statute) that the County Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate
The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more that the retail price index. The rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net nil trading position
This is where spending matches income.

Net current replacement cost
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net pension liability
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nil consideration
Where no charge is made for an item.

Nominal value of a financial instrument
The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-cash adjustments
Changes in debtors' and creditors' balances over the year.

Non-distributed costs
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets
Assets which are not in use.

Operating lease
A lease where ownership of the goods remains with the company leasing them to the County Council.

Operational assets
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Participating interest
When an organisation owns a significant proportion of shares (normally 20% or more) in another company.

Past service cost or gain (IAS 19)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

Pension enhancements
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the County Council's general conditions of employment.

Pooled investment vehicle
This is where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

Precept
A charge made by one authority which is collected by another authority – for example, the Council Tax precept.

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.
A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private finance initiative (PFI)
A means of securing new assets and associated services in partnership with the private sector.

Projected unit method (Pensions)
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) The accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Provisions
Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Realisable value
The amount for which an asset can be sold.

Reconciliation
The process of checking figures from different areas which should logically match up – for example, matching invoices paid against amounts banked.

Related party
A person or organisation which has influence over another person or organisation.

Reserves
Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value
The amount an asset can be sold for, less the cost of selling it.

Revenue account
An account which records the County Council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue contribution to capital outlay
This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

Revenue expenditure
The County Council's day-to-day spending. This is charged to the revenue account and consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant
A general grant from central government to contribute towards the cost of providing services.

Reversed out
This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants
Government grants for a particular service – for example, the Standards Fund Grant.

Standing orders
The rules the County Council must follow when buying goods, services and work. These rules are set out in the council's constitution.

Stock
Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Tangible assets
Assets which have a physical form – for example, buildings, furniture and equipment.

Total net worth
The total net value of resources available to or owned by the council.

Transfer in
A transfer of money into the pension fund from another pension fund.

Transfer out
A transfer of money out of the pension fund to another pension fund.

Transfer value
A payment made by one pension fund to another when a scheme member changes schemes.

Useful life
The period which an asset is expected to be available for use.

Undischarged obligations
Payments we are committed to make in the future.

Withholding tax
A tax on dividend income, charged at source.

Write down
This is where amounts are charged to the revenue account or offset against another balance sheet account.