Lancashire County Council

Audit and Governance Committee

Monday, 26th January, 2015 at 2.00 pm in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	**Item**	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting on 29 September 2014** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Accounts of Lancashire County Developments Limited 2013/14**	(Pages 9 - 38)
5.	**Update on Treasury Management Activity**	(Pages 39 - 52)
6.	**Internal Audit Service Progress Report**	
7.	**CIPFA Code of Practice - Managing the Risk of Fraud and Corruption**	(Pages 53 - 58)
8.	**External Audit - Lancashire County Council Update Report**	(Pages 59 - 74)
9.	**External Audit - Lancashire County Council Annual Audit Letter**	(Pages 75 - 84)
10.	**Urgent Business**	

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

11. Date of Next Meeting

The next meeting of the Committee will be held on Monday 30 March 2015 at 2.00pm at County Hall, Preston.

I Young
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 29th September, 2014 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

D Clifford	R Newman-Thompson
K Brown	A Schofield
G Driver	V Taylor
C Pritchard	B Winlow

County Councillor R Newman-Thompson replaced County Councillor C Dereli on the Committee.

Standing Order 19(1)

County Councillors D Borrow and J Hanson attended the meeting under Standing Order 19(1).

Officers in attendance

Gill Kilpatrick – county treasurer
George Graham – deputy county treasurer
Abigail Leech - head of financial accounting and taxation
Mike Jensen – chief investment officer
Ruth Lowry – chief internal auditor
Karen Murray – director, Grant Thornton
Len Cross – manager, Grant Thornton
Ian Young – county secretary and solicitor
Roy Jones - assistant county secretary
Cath Rawcliffe – committee support officer

Announcement

The committee was advised that a number of the committee reports on the agenda referred to matters of a confidential nature. It was important therefore, that Members had regard to this when raising questions on the items.

1. Apologies

None received.

2. Chair and Deputy Chair of the Committee

Resolved: That the appointment of County Councillor T Brown and County Councillor D Clifford as Chair and Deputy Chair of the committee respectively for the remainder of the municipal year 2014/15 be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

4. Minutes of the Meeting held on 30 June 2014

Resolved: That the Minutes of the meeting held on 30 June 2014 be confirmed and signed by the Chair.

5. Internal Audit annual report to Lancashire County Council for 2013/14

The committee considered the Internal Audit annual report for 2013/14, as presented by Ruth Lowry, chief internal auditor.

The report summarised the work of the Internal Audit Service during 2013/14 and the key themes arising in relation to internal control, governance and risk management across the council.

The opinion given in the report confirmed that only limited assurance could be given overall that the council operated generally sound systems of internal control.

The committee noted that there were some weaknesses in the council's systems' design and inconsistent application of controls which put the achievement of its objectives at risk and, in particular, significant weaknesses in the council's governance were revealed during the year.

The chief internal auditor commented that after a number of years in which management and staff resources had been reduced, services restructured, and operating process redesigned, it was unsurprising that the council's control framework now required more focussed management attention. A number of high profile issues had also impacted on the audit plan during the course of the year. These included the suspension and departure of the former Chief Executives of both the council and One Connect Limited (OCL) and a number of other matters relating to the Council's strategic partnership with BT PLC which had resulted in the return of many key services to the Council.

The committee was advised that the report had built on the matters reported in previous years which remained relevant, and matters which had been subject to discussions throughout 2013/14.

The assurance given in previous years was discussed. The chief internal auditor pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide, and to the previously even spread between substantial full assurance and limited/ nil assurance. That balance had now tipped and only limited/ nil assurance had been provided over the majority of control systems for 2013/14.

Members were reminded that feedback and assurances had been received from the executive directors for Children and Young People and Adult Services Health and Wellbeing in March 2014 on some of these areas.

Officers responded to questions raised by the committee in relation to the action being taken to raise the level of assurance awarded to a number of service areas. Officers also responded to questions raised in relation to the payments made to the former Chief Executive Officer of OCL.

Resolved: That the internal audit annual report to the authority for 2013/14 as set out at Appendix A to the report now presented be noted.

6. Annual Governance Statement 2013/14

Ian Young, county secretary and solicitor presented the Annual Governance Statement (AGS) for 2013/14, for inclusion in the County Council's Statement of Accounts for 2013/14, to be considered by the Committee at item 9 of the agenda.

The AGS had been carefully considered by the Management Team, recognising that the chief internal auditor had provided limited assurance overall that there was generally a sound system of internal control.

The committee noted that the council had over the past twelve months, experienced exceptional challenges which had absorbed and diverted a considerable amount of senior leadership time, circumstances which had impacted upon a number of the issues relevant to the adequacy and effectiveness of the council's control environment highlighted by the chief internal auditor's annual report.

It was noted that all outstanding actions would now form part of the chief internal auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance would achieve at least a substantial assurance assessment in the chief internal auditor's report for the year ending 31 March 2015.

Discussion was had on the issues that had emerged over recent months resulting in the fundamental re-negotiation of the council's strategic partnership with BT and the consequent return of many key services to the council including procurement.

In response to concerns raised by the Members, officers advised that the AGS for 2014/15 would be presented to the committee in June 2015 in accordance with the advice issued by the external auditor.

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 2013/14 as now presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2013/14.

7. Approval of the County Council's and County Pension Fund's Letter of Representation 2013/14

A report was presented on the County Council's Management Representation Letter at Appendix A and that for the Lancashire County Pension Fund at Appendix B to the report.

The committee was informed that the Management Representation Letters should be made available to the external auditors (as part of the audit evidence) before the audit report was issued.

It was noted that the Management Representation Letters would be signed on behalf of the Lancashire County Council and the Lancashire County Pension Fund by the County Treasurer and the Chair of the Audit and Governance Committee and the committee was asked to approve them.

Resolved: That the management representation letters as shown at Appendices A and B to the report now presented be approved.

8. External Audit
Lancashire County Council - Audit Findings Report 2013/14

A report was presented on the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Council, their proposed opinion on those accounts, and conclusion on the council's value for money arrangements.

In commenting on the county council's accounts, Karen Murray, external auditor, informed the committee that the draft accounts were, overall, prepared to a good standard. However, a number of misstatements and misclassifications had been identified within the accounts and these had been discussed with the County Treasurer and members of her team and the accounts amended.

The report also included the value for money conclusion. The opinion given in the report confirmed that the council did not have proper arrangements in place to secure value for money. This took account of the balance between those areas where the council's arrangements were demonstrably strong, and those areas of corporate and financial governance where the council had recently identified a number of fundamental weaknesses in its arrangements. It was acknowledged that the issues had emerged during the year but that they related to arrangements, decisions and actions taken in previous years.

The committee also noted that the external auditor was unable to formally conclude the audit and issue an audit certificate until they had completed their consideration of matters brought to their attention by the Council in 2013. However they were satisfied that these matters did not have a material effect on the financial statements or a significant impact on their value for money conclusion.

Resolved: That:

i) The external audit findings report covering the audit of the County Council for year ended 31 March 2014 be noted.

ii) The adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

9. Approval of the County Council's Statement of Accounts 2013/14

The committee was asked to approve the county council's Statement of Accounts for 2013/14, as presented by George Graham, deputy county treasurer.

Regulations governing the process and delegated authority from the county council required the chair of the committee to sign off the accounts once they were approved by the committee.

The committee was informed that the Statement of Accounts had been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 8 of the agenda were reflected within the statement.

It was reported that a member of the public had contacted the Council seeking to inspect the records underpinning the accounts and there was potential for a formal objection to the accounts to be made. This would be dealt with by the external auditor.

The committee was taken through the main components and key issues of the statement.

In response to questions raised by the Members in relation to the senior officers' disclosure note, officers advised that the council had followed Local Government Association guidance in 2012/13 and had notified the relevant senior officers of their inclusion in the disclosure note. The county treasurer agreed to investigate whether such notifications had been issued for 2013/14 following the meeting and inform all members of the committee accordingly.

The Lancashire County Pension Fund accounts were also included with the accounts as well as a separate item on the agenda.

Resolved: That the Lancashire County Council Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

10. External Audit
Lancashire County Pension Fund - Audit Findings Report 2013/14

A report was presented on the audit findings in relation to the accounts of the Lancashire County Pension Fund.

In commenting on the Lancashire County Pension Fund account, Karen Murray, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's reported financial position. However, a number of adjustments had been identified to improve the presentation of the financial statements.

It was reported that the pension fund's financial statements gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities.

Resolved: That:

i) The external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2014 be noted.

ii) The adjustments to the financial statements and other issues raised by the external auditor as set out in the report presented, be noted.

11. Approval of the Lancashire County Pension Fund's Statement of Accounts 2013/14

The committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2013/14, as presented by George Graham, deputy county treasurer.

Regulations governing the process and delegated authority from the county council required that the chair of the committee sign off the accounts once they were approved by the committee.

The Statement of Accounts had been prepared in accordance with International Financial Reporting Standards and initial consultation with the external auditors, Grant Thornton and included details of the Fund account, the Statement of Net Assets, investment policy and performance and the actuarial valuation.

The Statement also included details of the transfer of the National Probation Service and Community Rehabilitation Companies to the Greater Manchester Pension Fund and the current position with regard to the Fund's outstanding deposit with the Icelandic Bank Landsbanki Is.

Resolved: That the Lancashire County Pension Fund's Statement of Accounts for 2013/14 be approved and signed by the chair of the committee.

12. Update on Treasury Management Activity

A presentation was made to the committee by Mike Jensen, chief investment officer on a review of the county council's treasury management activities during the current financial year to the end of August and included:

- A review of the economic conditions during 2014/15
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2014/15 prudential indicators and treasury management indicators
- Investment in Landsbanki update

Officers responded to questions raised by the Members in relation to the investment in the Icelandic Bank, Landsbanki Is. The committee was assured that the bank would be required to pay interest on the council's deposit and that the developments in the bank's winding up process would be closely monitored by the county treasurer.

Details of the treasury management activities were presented at appendix A.

Resolved: That the review of treasury management activities for the period 1 April to 31 August 2014 shown at appendix A to the report now presented, be noted.

13. Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary 2013/14

Ruth Lowry, chief internal auditor presented a report on the complaints dealt with arising from the council's Whistleblowing Policy in the previous 12 months.

Since the last report in 2013, the internal audit service had received 21 complaints under this policy. Details of the complaints were shown at Appendix A to the report.

The committee noted that 12 of the 21 whistleblowing concerns had a financial implications.

Resolved: That the report be noted.

14. Urgent Business

There were no items of urgent business.

15. Date of Next Meeting

Resolved: That the next meeting of the committee be held on Monday 26 January 2014 at 2.00pm at County Hall, Preston

I Young
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee
Meeting to be held on 26 January 2015

Electoral Division affected:
All

Accounts of Lancashire County Developments Limited 2013/14
(Appendix 'A' refers)

Contact for further information:
Beryl Rhodes, Head of Finance (Commercial & Central)
01772 533603,
beryl.rhodes@lancashire.gov.uk

Executive Summary

This report sets out the Financial Statements of Lancashire County Developments Limited for 2013/14.

Recommendation

The Committee is requested to note the 2013/14 Statement of Accounts for Lancashire County Developments Limited.

Background

Lancashire County Developments Limited (LCDL) is the council's economic development company and is focussed on delivery in line with the County Council's Economic Development Framework.

On the 17th July 2003, the Full Council, on the recommendation of the Cabinet, resolved that the Lancashire County Developments Limited audited Statement of Accounts be reported to the Audit Committee for information.

An overview of 2013/14 for the company by its Chair may be seen on pages 3 and 4 of the Financial Statements for LCDL, which are attached at Appendix 'A'. Beryl Rhodes, LCDL Head of Commercial and Central Finance, will attend the meeting to respond to any questions.

The LCDL Group of Companies are legally required to have their financial records audited annually. The appointed Auditors are Grant Thornton Chartered Accountants.

The following points summarise the key points from the 2013/14 financial year (ending on 31st March 2014)

1. LCDL Group pre-tax profit was £1,065,669 for the period.

2. The major reasons for this profit were a £200k reduction in provisions for investments and a lower than anticipated expenditure on economic development projects. The reduction in investment provision results mainly from the change in the profile of the investments being made.

3. The company's property portfolio was revalued at 31st March 2014 and this gave rise to an increase in value from £25.9m to £31.4m. This reflects the completion of the new building at Leyland following the fire and a small rise in the value of the existing buildings on all sites.

4. The Balance sheet net worth of the LCDL Group of companies totals £39,629,889 as at 31st March 2014.

Audit Findings Report:

1. There were no material findings and no misstatements reported.

2. The Auditors continue to require updates on the Contingent liability position with regard to Public Liability claims following the fire at Leyland

The report and accounts were submitted to the LCDL Audit Committee, who recommended the accounts to the Board for signature. The accounts have subsequently been approved for signature by the LCDL Board and are currently awaiting the completion of final checks by the auditors before being filed at Companies House.

Consultations

N/A

Advice

N/A

Implications

N/A

Risk Management

N/A

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

Paper	Date	Contact/Directorate/Ext
Financial Statements working papers	2011/12	Beryl Rhodes, LCDL Tel : 01772 533603

Reason for inclusion in Part II, if appropriate

N/A

Financial Statements
Lancashire County Developments Limited

For the year ended 31 March 2014

Company No. 1624144

Company information

Company registration number :	1624144
Registered office :	P O Box 78 County Hall Preston Lancashire PR1 8XJ
Directors :	Ms N D Penney M J Welsh (Resigned 4 June 2013) H Henshaw (Resigned 4 June 2013) J R C Lawrenson (Resigned 4 June 2013) G Driver M P France (Resigned 4 June 2013) T M Ashton (Resigned 4 June 2013) P Halsall (Resigned 5 August 2013) M Green (Resigned 4 June 2013) D Watts (Appointed 29 July 2013) D Borrow (Appointed 23 July 2013) B Winlow (Appointed 29 July 2013) T Martin (Appointed 29 July 2013) J Gibson (Appointed 25 July 2013) D J Mein (Appointed 10 July 2013)
Secretary :	I M Fisher
Bankers :	The Royal Bank of Scotland Plc 97 Fishergate Preston PR1 2DP
Auditor :	Grant Thornton UK LLP Statutory Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

Index to financial statements

Chair's statement

Lancashire County Developments Ltd (LCDL) has played an important role in developing and growing the Lancashire economy for a number of years. The company has an impressive track record of delivering and co-ordinating business support programmes, providing investment finance through its Rosebud scheme and offering quality accommodation for businesses.

For the financial year the pre-tax profit for the group is £1.1m and a revaluation of the property portfolio as at 31st March 2014 gave rise to an increase in value from £25.9m to £31.4m. This reflects the completion of the new building at Leyland following the fire and a small rise in the value of the existing buildings on all sites.

The balance sheet net worth of the LCDL Group of companies totals £39.6m.

LCDL sits within Lancashire County Council's economic development service which delivers the economic priorities of the County Council. Sustainable economic growth and development are a priority for the County Council and, over the next two year, as the County Council is transformed into a smaller and more focussed organisation, the work of LCDL will be focussed and targeted on those opportunities with the most significant economic growth potential.

LCDL provides loan finance through its Rosebud initiative and in 2013/14 it completed 11 deals with a value of £1.6m.

LCDL's mixed property portfolio is managed by the County Council's Corporate Property Services and is home to over 170 businesses which employ over 2,250 people.

The Lancashire Enterprise Partnership (LEP) was established in 2011 and submitted its Lancashire Strategic Economic Plan (SEP) to government in 2014. The SEP, which forms the basis of the Lancashire Growth Deal, sets out the strengths of the Lancashire economy with a key focus on how economic growth and private sector investment are to be generated.

The County Council's economic development service, including LCDL, will continue to work to support and deliver the economic priorities set out in the SEP and the projects and proposals in the Growth Deal.

LCDL's financial position remains strong and supports a three year business plan which continues the track record of delivery against these economic priorities.

Niki Penney
Chair of LCDL Group
15 September 2014

Report of the directors

The directors present their report together with the audited financial statements of the company and the group for the year ended 31 March 2014.

Principal activities

The principal activities of the group are to invest in Lancashire with a view to acting as a catalyst in promoting the economic development of industry in the County, to provide industrial premises and associated facilities for businesses and to promote job creation and training particularly associated with new technologies.

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

Capital funding

Lancashire County Developments Limited is a company limited by guarantee, therefore, does not have a share capital.

Directors and employees

The Board of Directors during the year ended 31 March 2014 is shown below. All served on the Board throughout the year and thereafter, unless otherwise indicated.

Ms N D Penney
M J Welsh (Resigned 4 June 2013)
H Henshaw (Resigned 4 June 2013)
J R C Lawrenson (Resigned 4 June 2013)
G Driver
M P France (Resigned 4 June 2013)
T M Ashton (Resigned 4 June 2013)
P Halsall (Resigned 5 August 2013)
M Green (Resigned 4 June 2013)
D Watts (Appointed 29 July 2013)
D Borrow (Appointed 23 July 2013)
B Winlow (Appointed 29 July 2013)
T Martin (Appointed 29 July 2013)
J Gibson (Appointed 25 July 2013)
D J Mein (Appointed 10 July 2013)

At 31 March 2014, the group had no paid employees (2013: Nil), because with effect from 1 January 2004 all employees of the group were transferred to become employees of Lancashire County Council. Management services were also provided by the staff of Lancashire County Council and by professional advisers.

Report of the directors (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report and the Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 15 September 2014 and signed on its behalf.

Director

Strategic report

Business review

A detailed review of operations of the group during the year and a commentary on the state of affairs, financial position and plans for the future is contained in the Chair's statement.

The group profit before taxation amounted to £1,065,669 (2013: £4,663,998). The group profit after taxation amounted to £926,791 (2013: profit £4,659,277), which has been transferred to reserves.

Financial risk management objective and policies

The group uses financial instruments; these include cash and various other items, such as trade debtors and trade creditors that arise directly from its operations.

The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below.

Liquidity risk - The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.

- *Credit risk* - The group's principal financial assets are cash deposits, cash and trade debtors. The credit risk associated with cash is limited. The principal credit risk arises, therefore, from its trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.
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This report was approved by the board on 15 September 2014 and signed on its behalf.

Director

Report of the independent auditor to the members of Lancashire County Developments Limited

We have audited the financial statements of Lancashire County Developments Limited for the year ended 31 March 2014 which comprise the principal accounting policies, the consolidated profit and loss account, the statement of total recognised gains and losses, the group and parent company reconciliation of movement in members' funds, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our 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 us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

STUART MUSKETT (Senior Statutory Auditor)
For and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
MANCHESTER

15 September 2014

Principal accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention modified by the revaluation of certain fixed assets.

The principal accounting policies of the group remain unchanged from the previous year and are set out below.

Basis of consolidation

The group financial statements combine the financial statements of Lancashire County Developments Limited and all of its subsidiary undertakings.

In the year of acquisition, the consolidated profit and loss account incorporates the group's share of the results of subsidiary undertakings from the date of acquisition.

The group also holds corporate investments in certain companies where its shareholding is in excess of 20% of the total voting capital of these companies. In order to reflect the investment nature of all holdings, the group accounts for profits and losses on all of its corporate investments upon realisation. As the investments are held primarily for the purpose of promoting economic development, disclosure of share capital, reserves and results for the year of each investment, as required by the Companies Act 2006, is not considered appropriate.

Income from investments

Investment income is the amount of income receivable in the accounting period from investments and loans.

Income from property

Property income comprises rents arising from investment properties in the accounting period, but excludes service charges which are credited against the relevant expenditure.

Grant income

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible assets. This does not comply with paragraphs 17 and schedule 27 Schedule 1 to SI 2008/410,which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grants to be treated as deferred income.

As stated above no depreciation is provided on investment properties and there would therefore be no corresponding release of any deferred income to the profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of affairs of the company at the balance sheet date.

Assets under the course of construction

Assets under the course of construction are capitalised at cost less any provision for impairment.

Principal accounting policies (continued)

Investment properties

In accordance with Statement of Standard Accounting Practice No 19, certain of the group's properties are held for long–term investment and are included in the balance sheet at their open market values. The surplus(es) or deficit(s) on revaluation of such properties are transferred to the investment property revaluation reserve. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not amortised where the unexpired term is over twenty years.

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Corporate investments

Investments are stated at cost less provision for impairment. Provision is made against investments if, in the opinion of the directors, the diminution in value is considered permanent and likely to crystallise in the foreseeable future. All costs incurred in connection with the making of corporate investments are written off in the period in which they are incurred.

Government and EEC grants

Government and EEC grants received and receivable in respect of capital expenditure on investment properties are deducted from the cost of the relevant tangible fixed assets. This does not comply with paragraphs 17 and 27 of Schedule 1 to SI 2008/410, which have the effect of prohibiting the deduction of grants from the purchase price of the related asset. This would therefore require the grant to be treated as deferred income.

As stated above no depreciation is provided on investment properties and therefore, there would be no corresponding release of any deferred income to profit and loss account. The directors do not consider that the creation of a permanent deferred credit will show a true and fair view of the state of the affairs of the group at the balance sheet date.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Leased assets

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Consolidated profit and loss account

	Note	2014 £	2013 £
Continuing activities			
Operating income	2	**7,503,274**	6,449,209
Expenditure		**(6,164,023)**	(5,702,130)
Operating profit		**1,339,251**	747,079
Profit on disposal of tangible fixed assets	7	**-**	8,212,062
Unrealised loss on revaluation of investment properties		**-**	(4,054,284)
Profit on ordinary activities before interest and taxation		**1,339,251**	4,904,857
Interest receivable	3	**-**	34,689
Interest payable and similar charges	3	**(273,582)**	(275,548)
Profit on ordinary activities before taxation	2	**1,065,669**	4,663,998
Taxation on profit on ordinary activities	5	**(138,878)**	(4,721)
Profit retained and transferred to reserves	13	**926,791**	4,659,277

Statement of total recognised gains and losses

	2014 £	2013 £
Profit for the financial year	**926,791**	4,659,277
Unrealised loss on revaluation of investment properties	**-**	(5,265,498)
Revaluation in the year	**2,576,307**	-
Total recognised gains and losses relating to the year	**3,503,098**	(606,221)

Reconciliation of movement in members' funds/(deficit)

Group	2014 £	2013 £
Profit for the year	**926,791**	4,659,277
Unrealised revaluation of investment properties	**2,576,307**	(5,265,498)
Net increase/(reduction) in members' funds	**3,503,098**	(606,221)
Members' funds at beginning of the year	**28,819,279**	29,425,500
Members' funds at end of the year	**32,322,377**	28,819,279

Company

Loss for the year	**(32,105)**	(212,465)
Members' deficit at beginning of the year	**(13,687,714)**	(13,475,249)
Members' deficit at end of the year	**(13,719,819)**	(13,687,714)

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	2014 £	2013 £
Fixed assets			
Investment properties	7	**31,450,000**	25,950,000
Corporate investments	8	**4,396,822**	3,416,266
		35,846,822	29,366,266
Current assets			
Debtors	9	**6,145,134**	3,221,169
Cash at bank and in hand		**8,255,110**	9,004,077
		14,400,244	12,225,246
Creditors :amounts falling due within one year	10	**(10,617,177)**	(5,527,795)
Net current assets		**3,783,067**	6,697,451
Total assets less current liabilities		**39,629,889**	36,063,717
Financed by:			
Capital funding reserve	13	**8,730,878**	8,730,878
Investment property revaluation reserve	13	**2,576,307**	-
Profit and loss account	13	**21,015,192**	20,088,401
Members' funds		**32,322,377**	28,819,279
Creditors :amounts falling due after more than one year	11	**7,230,000**	7,230,000
Provisions for liabilities	12	**77,508**	14,438
		39,629,885	36,063,717

These financial statements were approved by the Board on 15 September 2014 and signed on their behalf by:

Cllr N Penney Chair

Company no: 1624144

The accompanying notes form part of these financial statements.

Company balance sheet

	Note	2014 £	2013 £
Fixed assets			
Corporate investments	8	**9,219,729**	9,219,729
		9,219,729	9,219,729
Current assets			
Debtors	9	**4,731,564**	2,958,287
Cash at bank and in hand		**378,918**	920
		5,110,482	2,959,207
Creditors :amounts falling due within one year	10	**(20,820,030)**	(18,636,650)
Net current liabilities		**(15,709,547)**	(15,677,443)
Total assets less current liabilities		**(6,489,819)**	(6,457,714)
Financed by:			
Capital funding reserve	13	**7,660,241**	7,660,241
Profit and loss account	13	**(21,380,060)**	(21,347,955)
Members' deficit		**(13,719,819)**	(13,687,714)
Creditors :amounts falling due after more than one year	11	**7,230,000**	7,230,000
		(6,489,819)	(6,457,714)

These financial statements were approved by the Board on 15 September 2014 and signed on their behalf by:

Cllr N Penney Chair

Company no: 1624144

Consolidated cash flow statement

	Note	2014 £	2013 £
Net cash inflow from operating activities	14	**3,444,911**	9,182,453
Returns on investments and servicing of finance			
Interest received		-	34,689
Interest paid		**(273,582)**	(275,548)
Net cash outflow from returns on investments and servicing of finance		**(273,582)**	(240,859)
Taxation paid		**(32,959)**	(34,478)
Capital expenditure and financial investment			
Purchase of investment properties		**(2,923,693)**	(12,019,750)
Purchase of corporate investments		**(1,944,959)**	(820,647)
Disposal and repayment of corporate investments		**981,315**	1,060,195
Proceeds on disposal of investment properties		-	8,212,062
Net cash outflow from capital expenditure and financial investment activities		**(3,887,337)**	(3,568,140)
Net cash (outflow)/inflow before financing		**(748,972)**	5,338,976
Financing			
Repayment of bank loans		-	(53,821)
Net cash outflow from financing	15	-	(53,821)
(Decrease)/increase in cash in the year	16	**(748,967)**	5,285,155

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 Constitution

Lancashire County Developments Limited is a company limited by guarantee. At 31 March 2014 there were 3 members (2013: 3), each of whom on a winding–up had undertaken to contribute an amount not exceeding £1.

2 Operating income and profit on ordinary activities before taxation

Operating income and profit on ordinary activities before taxation are attributable to the group's principal activities, which were carried out entirely within the United Kingdom. The profit on ordinary activities before taxation is stated after charging:

	2014	2013
	£	£
Auditors' remuneration		
– audit services	**30,355**	30,430
– non–audit services	**19,000**	22,420
Management fee paid to Lancashire County Council	**416,151**	408,543
Operating lease rentals		
– land and buildings	**-**	58,244

Non–audit services relate primarily to tax compliance and advisory fees.

3 Net interest

	2014	2013
	£	£
Interest payable and similar charges		
Bank loans	**273,582**	275,548
Interest receivable		
Bank interest receivable	**-**	34,689

4 Directors and employees

The chairman received £Nil (2013: £Nil) during the year. The total received from the group by the other directors was £Nil (2013: £Nil).

The employees of the group were officially transferred to Lancashire County Council with effect from 1 January 2004. The average number of employees in the year ended 31 March 2014 was £Nil (2013 : Nil). Employee costs of £936,485 for the year (2013 : £1,405,253) were recharged from Lancashire County Council to Lancashire County Developments Limited and are included within administrative expenses.

Notes to the financial statements

5 Taxation

	2014	2013
	£	£
Corporation tax on profit on ordinary activities at 23% (2013 : 24%)		
– current year	**183,408**	140,559
– adjustment in respect of prior years	**(107,600)**	4,013
	75,808	144,572
Deferred taxation		
– current year (other)	**58,529**	(139,851)
– adjustment in respect of prior years	**4,541**	-
	63,070	(139,851)
Tax on profit on ordinary activities	**138,878**	4,721

Factors affecting the tax charge for the year
The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 23% (2013 : 24%). The differences are explained as follows :

	2014	2013
	£	£
Profit on ordinary activities before taxation	**1,065,669**	4,663,998
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 23% (2013 : 24%)	**245,104**	1,119,358
Effect of:		
Expenses not deductible for tax purposes	**14,462**	2,302,064
Differences between capital allowances and depreciation	**(70,155)**	142,259
Non-taxable income	**(6,003)**	(3,240,953)
Fixed asset differences	**-**	(163,333)
Adjustment in respect of prior years	**(107,600)**	4,013
Unrelieved tax losses and other deductions in the period	**-**	(3,675)
Additional deduction for land remediation expenditure	-	(15,161)
	75,808	144,572

Notes to the financial statements

6 Profit and loss accounts

Under the provisions of s480 of the Companies Act 2006, Lancashire County Developments Limited has not published its own profit and loss account. The loss dealt with in the financial statements of the parent undertaking is £32,105 (2013 : £212,465).

7 Investment properties

Group	Freehold	Assets under the course of construction	Total
	£	£	£
Cost or valuation and net book value			
At 1 April 2013	18,928,876	7,021,124	25,950,000
Additions	-	2,923,693	2,923,693
Transfer	9,944,817	(9,944,817)	-
Revaluation in the year	2,576,307	-	2,576,307
At 31 March 2014	31,450,000	-	31,450,000
Cumulative grants			
At 31 March 2014			3,143,188
At 31 March 2013			3,143,188

The properties were externally revalued on an open market basis as at 31 March 2013 by King Sturge LLP. This was updated by an internal valuation as at 31 March 2014 . The historical cost of the premises are as follows :

	£
At 31 March 2013	25,950,000
Additions	2,923,693
At 31 March 2014	28,873,693

In December 2011 a significant part of one of the group's properties was destroyed in a fire. The disposal of this asset has been reflected in the prior year financial statements.

Company
At the year end the cost and net book value of the assets was £Nil (2013: £Nil).

Capital commitments
At 31 March 2014, the group and the company had capital commitments of £Nil (2013: £Nil).

Notes to the financial statements

8 Corporate investments

	Group		Company	
	2014	2013	**2014**	2013
	£	£	**£**	£
Shares in subsidiary undertakings	**-**	-	**200**	200
Shares in associated undertaking	**163,136**	163,136	**-**	-
Loans to subsidiary undertakings	**-**	-	**9,219,529**	9,219,529
Other investments in shares	**1,048,302**	467,709	**-**	-
Other participating interests	**10,681**	6,188	**-**	-
Other loans	**3,174,703**	2,779,233	**-**	-
	4,396,822	3,416,266	**9,219,729**	9,219,729

Subsidiary undertakings	**Principal activity**	**% of ordinary shares**	**% of preference shares**
Lancashire County Developments (Investments) Limited	Investment company	100	-
Lancashire County Developments (Property) Limited	Property investment	100	-
Lancashire Enterprises (Investments) Limited	Investment company	100	100
Lancashire County Enterprises (Leasing) Limited	Dormant	100	-
The Lancashire Rosebud (Small Firms) Fund Company Limited (Limited by guarantee)	Dormant	-	-
Associated undertaking			
North West Regional Fund Limited	Investment company	25	-

Other participating interests
Other participating interests at 31 March 2014 represent investments in The HSBC (UK) Enterprise Fund for the North West and the Enterprise Venture Fund. The interests are 11.9% and 15.7% respectively (2013 : 11.9% and 15.7% respectively).

Notes to the financial statements

8 Corporate investments (continued)

Group

	Shares in associated undertakings	Other participating interests	Other investment in shares	Loans	Total
	£	£	£	£	£
Cost					
At 1 April 2013	163,136	6,188	734,699	3,735,496	4,639,519
Additions	-	-	418,534	1,526,425	1,944,959
Amounts written off	-	-	-	(12,425)	(12,425)
Repayments	-	(12,422)	-	(912,375)	(924,797)
Net share of profits of other participating interests	-	16,915	-	-	16,915
At 31 March 2014	163,136	10,681	1,153,233	4,337,121	5,664,171
Provisions					
At 1 April 2013	-	-	161,383	1,061,870	1,223,253
Charge/(credit) for the year	-	-	(56,452)	100,548	44,096
At 31 March 2014	-	-	104,931	1,162,418	1,267,349
Net book value					
At 31 March 2014	163,136	10,681	1,048,302	3,174,703	4,396,822
At 31 March 2013	163,136	6,188	573,316	2,673,626	3,416,266

Other investments	**Principal activity**	**% of ordinary shares held at 31 March 2014**	% of ordinary shares held at 31 March 2013
Manhattan Showers Limited	Manufacture of shower screens	-	20
North West Regional Fund Limited	Investment company	25	25
Plant Impact Plc	Development of crop nutrients and natural pesticides	1.9	3.72
SOL Publications Limited	Publishing and Media company	15	15
Outerline Limited (formerly EXML Systems)	Development of Expense World Expenses System	-	2
ISIS Forensics Limited	Development of software	7.46	-

The group holds other investments in which more than 20% of share capital is held. The group does not include these as associated undertakings as no significant influence is exerted over these companies.

Notes to the financial statements

9 Debtors: amounts falling due within one year

	Group		Company	
	2014	2013	**2014**	2013
	£	£	**£**	£
Trade debtors	**4,563,534**	1,866,841	**3,462,200**	893,105
Accrued income and prepayments	**777,870**	168,684	**23,360**	45,190
Amounts owed by parent undertaking	**-**	-	**1,236,321**	890,898
Other debtors	**797,415**	76,618	**-**	5,386
Social security and other taxes	**6,315**	1,109,026	**-**	1,109,026
Deferred taxation (note 12)	**-**	-	**9,683**	14,682
	6,145,134	3,221,169	**4,731,564**	2,958,287

10 Creditors: amounts falling due within one year

	Group		Company	
	2014	2013	**2014**	2013
	£	£	**£**	£
Bank overdraft	**-**	-	**14,233,357**	11,541,596
Social security and other taxes	**347,078**	-	**347,078**	-
Trade creditors	**95,725**	630,225	**210,544**	627,368
Amounts owed to other group undertakings	**-**	-	**2,754,663**	5,266,437
Corporation tax	**183,408**	140,559	**-**	-
Accruals and deferred income	**9,990,966**	4,757,011	**3,274,388**	1,201,249
	10,617,177	5,527,795	**20,820,030**	18,636,650

Notes to the financial statements

11 Creditors: amounts falling due after more than one year

	Group and Company	
	2014	2013
	£	£
Amount owed to parent undertaking - Lancashire County Council	**7,230,000**	7,230,000
	7,230,000	7,230,000

The loan from Lancashire County Council included in creditors: amounts falling due after more than one year of £7,230,000 is interest free and is repayable in full on 30 September 2030.

12 Provisions for liabilities

Deferred taxation

	Group	Company
	£	£
Provision/(asset) at 1 April 2013	14,438	(14,682)
Charge for the year	63,070	4,999
Provision/(asset) at 31 March 2014	**77,508**	(9,683)

Deferred taxation provided for in the financial statements is set out below.

	Group Amount provided		Company Amount provided	
	2014	2013	**2014**	2013
	£	£	**£**	£
Accelerated capital allowances	**77,508**	14,438	**(9,683)**	(14,682)
Other timing differences	**-**	-	**-**	-
	77,508	14,438	**(9,683)**	(14,682)

Notes to the financial statements

13 Reserves

Group

	Capital funding reserve	Investment property revaluation reserve	Profit and loss account
	£	£	£
At 1 April 2013	8,730,878	-	20,088,401
Profit for the year	-	-	926,791
Revaluation in the year	-	2,576,307	-
At 31 March 2014	8,730,878	2,576,307	21,015,192

Company

	Capital funding reserve	Profit and loss account
	£	£
At 1 April 2013	7,660,241	(21,347,955)
Loss for the year	-	(32,105)
At 31 March 2014	7,660,241	(21,380,060)

14 Net cash inflow from operating activities

	2014	2013
	£	£
Operating profit	**1,339,251**	747,079
(Increase)/decrease in debtors	**(2,923,965)**	6,954,975
Increase/(decrease) in creditors	**5,046,540**	1,497,124
Share of profit in participating interests (note 8)	**(16,915)**	(16,725)
Net cash inflow from operating activities	**3,444,911**	9,182,453

15 Reconciliation of net cashflow to movement in net funds/(debt)

	2014	2013
	£	£
(Decrease)/increase in cash in the year	**(748,967)**	5,285,155
Cash outflow from movement of debt	**-**	53,821
Movement in net funds	**(748,967)**	5,338,976
Opening net funds/(debt)	**1,774,077**	(3,564,899)
Closing net funds/(debt)	**1,025,110**	1,774,077

Notes to the financial statements

16 Analysis of changes in net funds/(debt)

	At 31 March 2013	Cashflows	**At 31 March 2014**
	£	£	**£**
Cash at bank	9,004,077	(748,967)	**8,255,110**
Bank loans:			
The Royal Bank of Scotland plc	-		**-**
Other loans:			
Lancashire County Council	(7,230,000)	-	**(7,230,000)**
	1,774,077	(748,967)	**1,025,110**

17 Operating lease commitments

Operating lease payments due within one year are as follows :

	2014 Land and Buildings	2013 Land and Buildings
	£	£
Expiring after five years	**-**	96,895

18 Related parties

Sales to Lancashire County Council during the year amount to £3,329,345 (2013: £2,235,389). Purchases from Lancashire County Council amount to £3,254,488 (2013: £2,510,058). The amount owed by this related party at 31 March 2014 is £3,006,955 (2013: £586,883). The amount owed to this related party at 31 March 2014 is £31,647 (2013: £6,310).

19 Contingent liabilities

The company has issued a cross guarantee secured on assets held by the company and other companies within the group.

The cross guarantee relates to a borrowing facility and covers the obligations of each other company in the group. The total amount outstanding by the group at 31 March 2014 was £Nil (2013: £Nil).

There are outstanding public liability claims addressed to both Lancashire County Developments Limited, Lancashire County Developments (Property) Limited and Lancashire County Council relating to a fire in one of Lancashire County Developments (Property) Limited's properties in December 2011. These are currently in the hands of insurers and lawyers who are defending these claims on behalf of all three entities. At this stage it is not possible to provide an accurate estimate of any costs that will arrive as a result of this claim.

Audit and Governance Committee
Meeting to be held on 26 January 2015

Electoral Division affected: None

Update on Treasury Management Activity
(Appendix A refers)

Contact for further information:
Mike Jensen, County Treasurer's Directorate, (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 in 2014/15. 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 review includes:

- A review of the economic conditions during 2014/15
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2014/15 Prudential indicators and Treasury Management Indicators.
- An update on the Council's investment in Landsbanki Is..

Recommendation

The Committee is recommended to note the review of treasury management activities in 2014/15 for the period 1 September to 30 November 2014.

Background and Advice

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with the oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and 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 outlines a review of the borrowing and lending activity during the period 1 September to 30 November 2014 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Arlingclose provides advice on treasury management.

Implications:

Not applicable.

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.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2014/15	Feb 2014	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Appendix A

Treasury Management Activity 3rd Quarter Report 2014-15

1. Background

The County Council’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

This report considers treasury management activity between 1st September and 30 November 2014.

2. Economic Overview

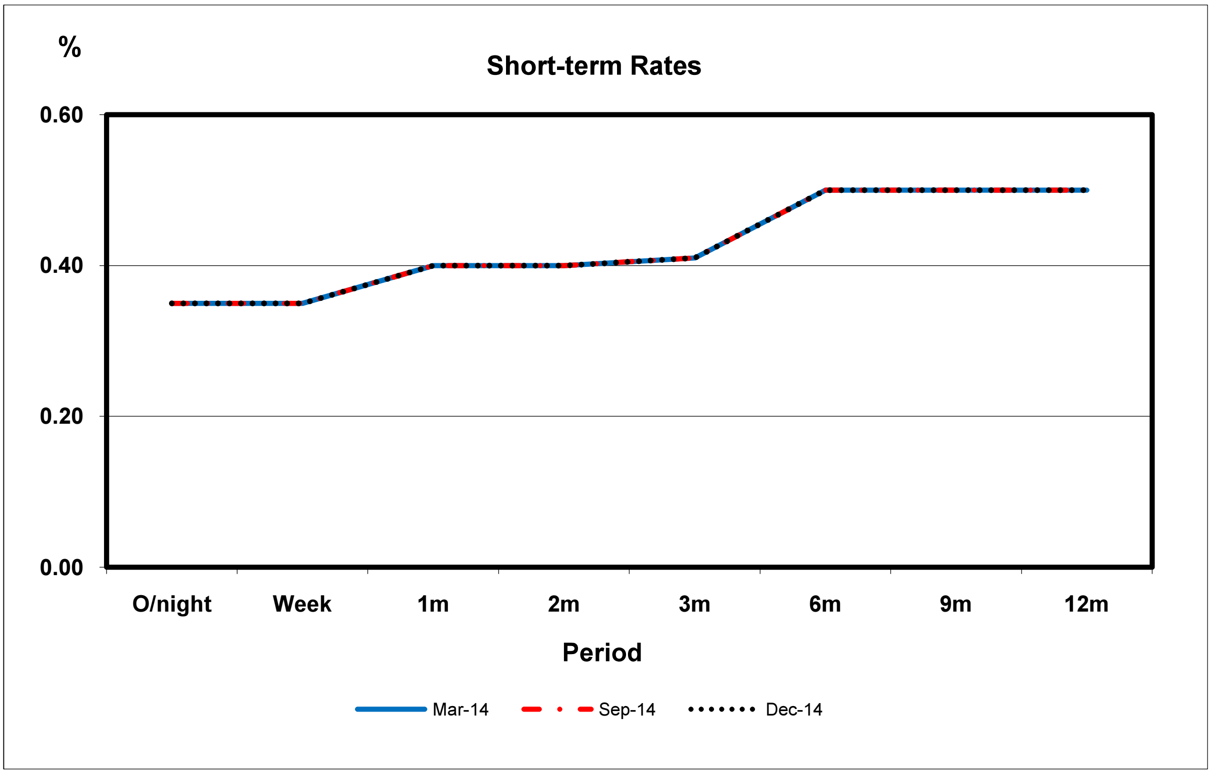
There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of the UK's Gross Domestic Product (GDP). However, there are no signs of inflationary pressure and this is likely to remain the case at least for the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings from August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

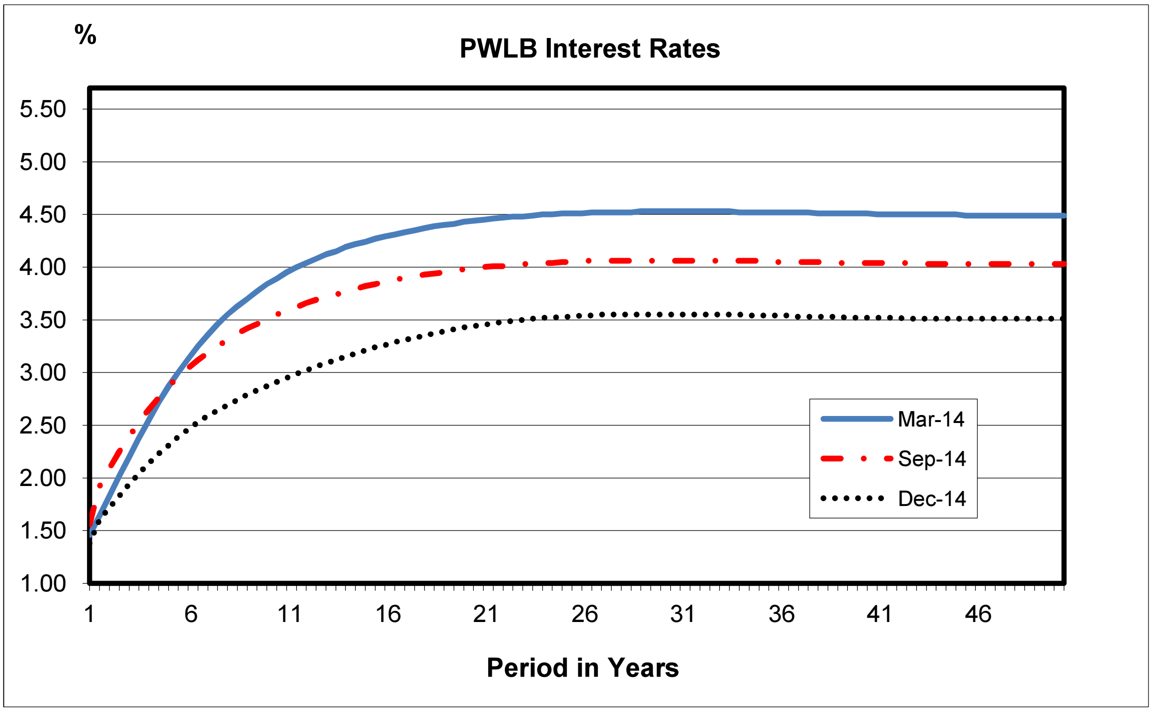
The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

2.1 Interest Rate Environment

Short term interest rates continue at the very low levels since the Bank of England reduced the base rate to 0.5% in March 2009. The chart below shows that there has been no movement in short term interest rates over the first three quarters of the calendar year.



Current longer term PWLB rates are shown below.



These rates are published twice a day by the UK Treasury debt management office and are calculated by adding a spread of 100 basis points to gilt yields. They are therefore a good indication of how much it would cost the County Council to finance capital expenditure through the PWLB but also of the direction of long term interest rates in general.

Following a period where central bank liquidity injections, the abatement of the euro crisis and the economic recovery had seen a reduction in demand for safe haven assets including UK Government gilts, the picture reversed during the summer of 2014 as economic indicators began to show a less rosy picture.

The autumn recorded continuing poor financial news from Europe and China, and this combined with significantly heightened geo-political risk has seen bond markets push on to even higher levels with the UK in particular continuing to set new historic lows in long term rates.

2.2 Outlook for Interest Rates

Treasury Consultants Arlingclose Ltd forecast the first rise for official interest rates to be in September 2015 with a gradual pace of increases thereafter and the average bank rate for 2015/16 being around 0.75%. Arlingclose are also forecasting that when the economy reaches the point that it can be considered to have recovered from the financial crisis, and rates rise to 'normal' levels, bank rate will range between 2.5% and 3.5%, considerably lower than pre-crisis levels.

Arlingclose consider that the risk interest rates will be higher than this forecast increases as the forecast looks further into the future beyond 2016. On the downside, the chance that interest rates will be lower than the forecast, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year and so this risk is higher at the near end of the forecast.

Arlingclose expect the deteriorating Eurozone situation will result in gilt yields will remain low in the short term but still on an upward path through the medium term.

Period	Bank Rate	3 month LIBID	12 month LIBID	20-year Gilt Rate
Q1 2015	0.50	0.60	1.00	2.55
Q2 2015	0.50	0.75	1.05	2.65
Q3 2015	0.75	0.90	1.20	2.75
Q4 2015	0.75	1.05	1.35	2.85
Q1 2016	1.00	1.20	1.50	2.95
Q2 2016	1.00	1.35	1.65	3.00
Q3 2016	1.25	1.50	1.80	3.05
Q4 2016	1.25	1.60	1.95	3.10
Q1 2017	1.50	1.70	2.10	3.15

Q2 2017	1.50	1.80	2.20	3.20
Q3 2017	1.75	1.90	2.30	3.25
Q4 2017	1.75	2.00	2.40	3.30
Q1 2018	1.75	2.10	2.50	3.30

2.2 Implications for Lancashire County Council Treasury Strategy

Since 2010 the County Council have used short term market borrowing to fund past and present capital expenditure so taking advantage of historically low interest rates. This policy has proved to be very effective in an environment where rates have stayed low for much longer than expected and continues to do so. Prospects for interest rate increases are continuously monitored and flexible arrangements are maintained to enable the Council to react in good time should the path of interest rate forecasts change.

3. Current Issues

3.1 Bank 'bail-in' legislation

The European Bank Recovery and Resolution Directive which becomes UK law in July 2015 is an important consideration for the County Council's current and future investment policy. This legislation brings into law 'bail-in' arrangements whereby the first port of call to fund a failing bank will be investors rather than the taxpayer.

Although the legislation does not, in itself, increase the risk of a bank default, it does increase the County Council's credit risk, because the effect of the legislation is to place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. Whereas individuals and companies (small and large) have some protection through compensation and deposit guarantee schemes, there are no such protections for public authorities.

In effect this increases the risks associated with fixed unsecured deposits beyond the point where they are a suitable investment vehicle for the County Council's reserves and balances. The current treasury management investment policy and active treasury management strategy already provides for the replacement of fixed deposit investments with other lower risk investment options, primarily through exposure to UK Government credit, through Gilt markets and through covered bonds which are specifically exempt from the bail-in legislation.

3.2 Liquidity Management Trades (Sell/Buy Back and Buy/Sell Back Transactions.)

After security, liquidity is the most important objective of the County Council's treasury management strategy. Liquidity is essentially the Council's access to cash.

In the past daily liquidity has been achieved through the use of bank call accounts, primarily the Special Interest Bearing account provided by the County Council's bankers Nat West (part of the Royal Bank of Scotland). However the bank bail-in legislation means that holding large amounts of cash with RBS exposes the County Council to an increased level of credit risk. If RBS was to default with the Council's funds within the call account, the Council's funds would be at risk as set out above in section 3.1.

The current treasury management policy allows for the use of the County Council's high quality securities to be used in sell/buy back transactions, whereby securities are sold to a bank counterparty and simultaneously an additional trade is agreed to buy the securities back at an agreed price on a future date. This effect of this trade is to borrow short term cash for liquidity purposes at a rate of interest implied by the difference between the selling and buying price of the securities.

A reverse of this trade can also be used to invest cash overnight or over a weekend, again using UK Government securities. These transactions have been successfully used during the year to invest cash so maintaining liquidity and reducing bank credit risk exposure. The current interest rate for these transactions is currently around 0.47% which is competitive with call account and money market fund rates therefore not exposing the Council to further costs.

4. Current Treasury Management Policy

Full Council approved the 2014/15 treasury management strategy at its meeting on 27th February 2014. The Council's stated investment priorities are:

(a) Security of capital and
(b) Liquidity of its investments.

The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

The Council's stated borrowing strategy is to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans.

The County Treasurer can report that all treasury management activity undertaken during the financial year to date complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

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. Rates will be carefully monitored and the proportion of borrowing held on longer term fixed rates will be increased as rates are expected to rise.

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 appropriate given the continued difficult credit environment and forthcoming banking 'bail-in' legislation.

4.1 Investment Activity

The table below shows investment activity between 31 August 2014 and 30 November 2014.

	Bank and Local Authority Deposits			
	Call	**Fixed**	**Structured**	**Total**
	£m	**£m**	**£m**	**£m**
Balance 31 August 2014	**89.28**	**56.50**	**73.81**	**219.58**
Maturities	-83.30	0.00	0.19	-83.11
New Investments	86.47	0.00	0.00	86.47
Balance 30 November 2014	**92.46**	**56.50**	**74.00**	**222.95**

	Bonds			
	LA Bonds	**Gilts**	**Others**	**Total**
	£m	**£m**	**£m**	**£m**
Balance 31 August 2014	**20.09**	**43.66**	**190.15**	**253.90**
Maturities	16.61	-4,316.48	-233.91	-4,533.77
New Investments	0.00	4,361.27	255.11	4,616.38
Balance 30 November 2014	**36.70**	**88.45**	**211.35**	**336.50**

Overall the level of investments have increased in the period by £85.97m. This increase is in line with cash flow movements and requirements. Bond investments now make up 60.15% of the portfolio following the active management of investment portfolios through this period of increasing geopolitical risk and deteriorating economic indicators and the Scottish referendum represented by the unusually high turnover of the gilts and other bond portfolios.

In addition liquidity management trades (described in section 3 above) increase the activity in UK Government Gilts.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 2.063% which compares favourably with the benchmark 7 day LIBID which averages 0.35% over the same period.

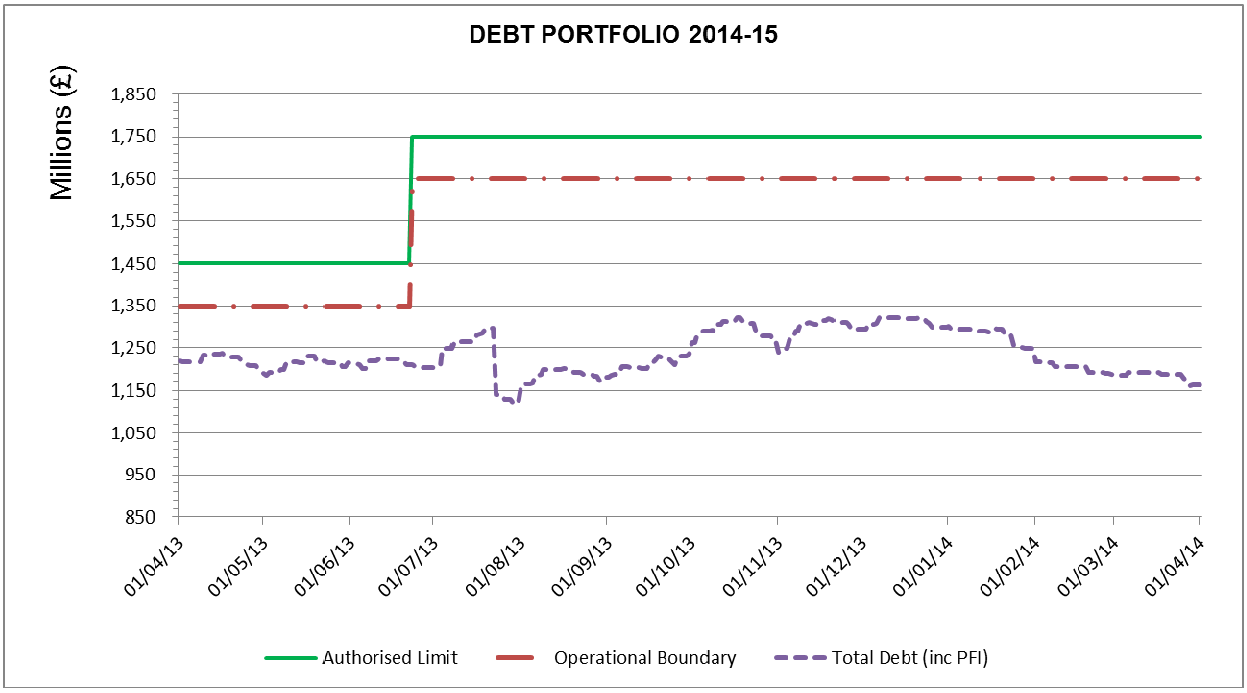
4.2 Borrowing Activity

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 31 August 2014 and 30 November 2014.

	PWLB Fixed	PWLB Var	Long Term Market Loan	Other Locals	Police, Fire & Lancashire District Councils	Total
	£m	£m	£m	£m	£m	£m
Balance 31 August 2014	**213.10**	**125.75**	**52.27**	**507.27**	**104.66**	**1,003.05**
Maturities	0.00	0.00	0.00	286.00	139.55	425.55
New Borrowing	0.00	0.00	-0.38	-157.25	-153.85	-311.48
Balance 30 November 2014	**213.10**	**125.75**	**51.89**	**636.02**	**90.36**	**1,117.12**

Treasury borrowing has increased over the period, for cash flow and portfolio management purposes. Total borrowing now stands at £1.236bn including the financing of £119m of assets through Private Finance Initiative schemes.

The graph below shows the level of debt for each day of the current financial year compared with the prudential indicator operational and authorised boundaries. In June the boundaries were temporarily increased to provide room for a possible bond issuance to replace the current method of short term market borrowing.



Total debt during the year has remained below the original operating boundary.

The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.59%. The most recent benchmarking figure available is the average rate for all Arlingclose clients measured on 31 March 2014 of 4.14%.

5 Investment in Landsbanki Is.

Under the previous Treasury Management Strategy, Lancashire County Council made a £6.4m deposit with the Icelandic Bank Landsbanki Is which was still on deposit when the bank collapsed in October 2008. During the administration process 52% of the claim was repaid through distributions by the bank winding up board and the remainder of the claim was sold at the end of November. After taking into account the principal and interest distributions and sale proceeds, Icelandic Krona exchange rate and legal costs there is a loss of £476k of the original £10m principal invested. This will not cause an overspend against the budget as it can be met from other investment income within the Council's financing charges budget which is set out below.

6. Budget Monitoring Position

The financing charges budget is forecasted to be £7m underspent compared with budget at the end of the financial year. The latest underspend position will be reported to Cabinet at its meeting on 5 February.

The majority of the underspend is due to the outperformance of the County Council's bond portfolios during the last six months. Portfolio risk management in recent volatile markets has forced the turnover of the portfolios on a frequent basis and this crystallises the increase in the market value of these 'quality' assets.

In addition there is a reduction of interest payments following the refinancing of the Waste PFI project.

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.

7. Prudential Indicators 2013/14

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 30 November 2014 compared to the indicators set in the treasury management strategy for 2014/15 is set out below.

Treasury Management Prudential Indicators	**2014/15** **£M**	**30th Nov 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	1,544	1,117
Other long-term liabilities(PFI schemes)	206	119
TOTAL	1,750	1,236
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	1,494	1,117
Other long-term liabilities	156	119
TOTAL	1,650	1,236

4. Capital financing requirement to gross debt

	Estimate	**Actual**
Capital financing requirement (excl PFI)	645	871
Estimated gross debt	815	1,117
Debt to CFR	126%	128%

The actual capital financing and gross debt figures are higher than the estimate as a result of refinancing the waste PFI. The estimated gross debt figure will be revised in the 2015/16 Strategy to take into account this refinancing. Gross borrowing is higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation.

8. Treasury Management Indicators

The following indicators are set as part of adopting the treasury management code. The code states that local authorities should have regard to the following treasury indicators.

A comparison of the agreed indicators and the actual position at 30 November 2014 is set out below.

1. Interest rate exposure

	Upper limit £m	Actual £m
Net Interest Payable Fixed rate	37.6	6.1
Net Interest Payable Variable rate	5.0	0.5
1yr impact of 1% rise	25.0	1.8

2. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	21
12 months and within 2 years		75	46
2 years and within 5 years		75	7
5 years and within 10 years		75	5
10 years and above	25	100	21

3. Investments over 365 days

	Upper limit £m	Actual £m
Total invested over 364 days	900	450

4. Minimum Average Credit Rating

Benchmark	Actual

Average counterparty credit rating	A+	AA

5. Daily Liquidity

	Minimum Requirement £m	**Actual £m**
Cash maintained on call	20	92

This report on the latest Treasury management activity shows that the Treasury Management Strategy set in February is still appropriate for the current market conditions and that the level of borrowing and investments are in line with this strategy and within the indicator limits

The Council confirms that it has complied with its Prudential Indicators for 2014/15, which were approved on 20th February 2014 as part of the Council's Treasury Management Strategy Statement.

Audit and Governance Committee
Meeting to be held on 26 January 2015

Electoral Division affected: All

CIPFA Code of Practice – Managing the Risk of Fraud and Corruption
(Appendix A refers.)

Contact for further information:
Ian Rushworth, (01772) 534779

Executive Summary

The council has a responsibility to ensure it has effective counter fraud arrangements in place. To support organisations CIPFA have recently issued a voluntary code of practice entitled Managing the risk of fraud and corruption.

Recommendation

The Audit and Governance Committee is asked to consider the report and recommendations on counter fraud arrangements as set out in the report

Background and advice

The council has a responsibility to ensure it has effective counter fraud arrangements in place. To support organisations CIPFA have recently issued a voluntary code of practice entitled Managing the risk of fraud and corruption.

The code consists of the following five key principles of counter fraud good practice:

- acknowledge the responsibility of the governing body for countering fraud and corruption;
- identify the fraud and corruption risks;
- develop an appropriate counter fraud and corruption strategy;
- provide resources to implement the strategy; and
- take action in response to fraud and corruption.

The code builds on existing CIPFA guidance, Managing the Risk of Fraud, commonly referred to as the Red Book and other counter fraud best practice advice such as the Protecting the Public Purse reports issued by the Audit Commission.

For each of the five principles the new code includes details of the specific elements that organisations should have in place. The internal audit service is responsible for co-ordinating the council's counter fraud work and we have assessed the council's current arrangements against each of these elements. The council already has adequate and effective counter fraud arrangements in place and as such is compliant with the vast majority of the code. We have identified three areas where our arrangements could be strengthened which are detailed below.

Details of our assessment can be found at Appendix A.

Recommendations for Consideration

1. The code recommends that a statement is included in the annual governance report stating that the organisation has adopted a response appropriate to the fraud and corruption risks it faces. The council's annual governance report for 2013/14 referred to the council's whistleblowing and counter fraud arrangements, however, consideration will be given to expanding this and including a reference to the CIPFA Code of Practice in future annual governance reports.

2. The council has an anti-fraud policy and strategy which was developed several years ago. Whilst these documents are relevant they need to be refreshed to reflect current arrangements. These will be reviewed by the end of March 2015.

3. To increase fraud awareness across the council it is proposed that staff in key roles complete a fraud awareness e-Learning course. A course has been developed by the National Fraud Authority and Deloitte and made available free of charge to local authorities. It is intended that this will be rolled out in April 2015 and made mandatory to the following groups of staff:

- budget holders;
- staff within county treasurers directorate; and
- staff within procurement, legal services, Your Pensions Service and payroll.

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.

Code of Practice Assessment

Appendix A

Key Principle	Specific Steps	Council position	Action Plan
A. Acknowledge responsibility	A1 The council's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.	This is acknowledged in the council's anti-fraud policy and also through the council's Code of Conduct.	N/A
	A2 The council's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.	This is acknowledged in the council's anti-fraud policy and also through the council's Code of Conduct.	N/A
	A3 The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.	The annual governance report where appropriate refers to fraud and corruption risks and actions. The Audit and Governance Committee's agreed terms of reference includes the responsibility to monitor the effectiveness of the council's strategies to counter fraud and corruption.	As recommended in the code, consideration will be given to including a reference to the CIPFA Code of Practice in future annual governance reports.
	A4 The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.	Whilst a specific goal is not set the Audit and Governance Committee have responsibility for ensuring the council's exposure to fraud risks is appropriate.	N/A
B. Identify risks	B1 Fraud risks are routinely considered as part of the organisation's risk management arrangements.	An annual fraud risk assessment is completed by internal audit based on their knowledge of the organisation and the associated fraud risks.	N/A

	B2 The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.	The council has identified the risk of fraud and corruption in its anti-fraud strategy and policy. The council's Code of Conduct sets out the behaviours expected of staff and makes clear the need to act with integrity. The Code of Conduct is communicated to all staff on a regular basis. A fraud awareness e-learning course is to be rolled out to relevant staff throughout the council.	A fraud awareness e-Learning course will be rolled out to key staff during 2015.
	B3 The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.	The annual fraud risk assessment incorporates information on fraud risks from a wide range of internal and external sources including CIPFA, NAFN, Greater Manchester Council Fraud Group and the Audit Commissions Protecting the Public Purse report.	N/A
	B4 The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.	The impact of each fraud risk is considered as part of the fraud risk assessment.	N/A
C. Develop a strategy	C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.	The council has an anti-fraud strategy and policy. The documents remain relevant but require updating to account for revised job titles and roles and responsibilities.	It is intended that this strategy and policy will be reviewed following the Phase 1 restructure.
	C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.	The anti-fraud strategy and policy include joint working arrangements.	N/A
	C3 The strategy includes both proactive and responsive approaches that are best suited to	The anti-fraud strategy and policy includes proactive and responsive approaches to	N/A

	the organisation's fraud and corruption risks.	fraud risk.	
	C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.	The anti-fraud strategy and policy includes clear responsibility and accountability.	It is intended that this strategy and policy will be reviewed following the Phase 1 restructure.
D. Provide resources	D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.	This is considered as part of the annual Internal Audit planning process and a report is submitted to the Audit and Governance Committee for approval.	N/A
	D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.	The internal audit team includes three individuals who have experience of performing a number of investigations and hold the CIPFA Certificate in Investigative Practices Certificate.	N/A
	D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.	The counter fraud team have access to all information that they require for investigation purposes.	N/A
	D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.	The organisation has arrangements in place to facilitate joint working and data/ intelligence sharing.	N/A
E. Take action	E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy.	The council has an anti-fraud strategy and policy.	N/A
	E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.	An annual counter fraud plan is produced as part of the annual Internal audit planning process. Progress is monitored as part of the overall internal audit progress reporting arrangements.	N/A
	E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.	The council fully participates in the National Fraud Initiative and receives and shares fraud intelligence information where appropriate.	N/A

	E4 Providing for independent assurance over fraud risk management, strategy and activities.	The counter fraud work feeds into the internal audit plan and into the overall audit opinion on how the organisation manages risks.	N/A
	E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.	An annual counter fraud report is submitted to the Audit and Governance Committee. Where appropriate conclusions are then incorporated into the Internal Audit Annual Report and the annual governance report.	N/A

Agenda Item 8

Audit & Governance Committee
Meeting to be held on 26 January 2015

Electoral Division affected: All

External Audit
Lancashire County Council
Update Report
(Appendix A refers)

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
karen.l.murray@uk.gt.com

Executive Summary

Update report including progress to date with the 2014/15 audit of the accounts, Value for Money (VfM) conclusion and other work. The outcome of our work will be reported to the Audit and Governance committee throughout the year. The report also provides additional information on sector developments to the members of the Audit and Governance Committee as those charged with governance for the Council.

Recommendation

The Audit & Governance Committee is asked to note the update report.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Deputy County Treasurer.

Implications

Not applicable.

Risk management

No significant risks have been identified.

Lancashire County Council

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Appendix A

Grant Thornton

Audit Committee Update

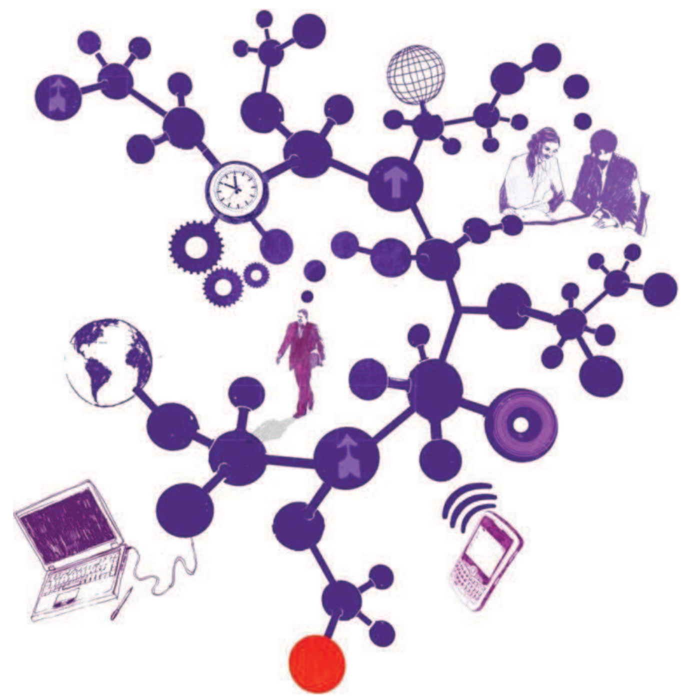
Year ended 31 March 2015

January 2015

Karen Murray
Director
T +44 (0)161 234 6364
E karen.l.murray@uk.gt.com

Len Cross
Manager
T +44 (0)161 234 6387
E leonard.e.cross@uk.gt.com

Allen Graves
Executive
T +44 (0)161 234 6382
E allen.graves@uk.gt.com



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Contents

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

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

Karen Murray Engagement Lead T 0161 234 6364 M 07880 456 205 karen.l.murray@uk.gt.com
Len Cross Audit Manager T 0161 234 6387 M 07880 456 198 leonard.e.cross@uk.gt.com

Progress at January 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	March 2015	On track	
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January to March 2015	On track	
2014-15 final accounts audit Including: • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	July to September 2015	On track	

Progress at January 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises considering whether the Council has appropriate arrangements in place for • Securing financial resilience; and • for challenging how it secures economy, efficiency and effectiveness.	January to September 2015	On track	
Other areas of work We have also undertaken work to provide an independent auditors report on the Teachers Pensions Return. This work is outside the Audit Commission regime. We have completed our certification of your local transport plan grant claim.	December 2014	Yes	

Page 66

CIPFA LAAP updates

Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- LAAP bulletin 99 Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- LAAP bulletin 100 Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge questions

- Has your County Treasurer reviewed the guidance and assessed the potential impact for your authority?
- Has your authority started to implement a project plan for accounting for transport infrastructure assets?

2020 Vision

Grant Thornton
Our national report '2020 Vision' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/ In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector. Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges. Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth. English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future. Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020. Hard copies of our report are available from your Engagement Lead or Audit Manager.

Pulling together the Better Care Fund

Grant Thornton
Our national report 'Pulling together the Better Care Fund' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/ Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015? Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014. It provides you with: • an understanding of how your approach to introducing BCF compares to others across the country • assistance in identifying the key issues to delivering Better Care Fund plans effectively • insight into current best practice • practical areas for consideration for improving arrangements in the future. Hard copies of our report are available from your Engagement Lead or Audit Manager.

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: **http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/**

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Rising to the challenge – The evolution of Local Government

Grant Thornton

Our national report 'Rising to the challenge – The evolution of Local Government' was published on 4 December 2014.

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Protecting the Public Purse 2014

Local government guidance

On 23 October 2014 the Audit Commission released its national report, *Protecting the Public Purse 2014, Fighting Fraud against Local Government*.

'Protecting the Public Purse', the final one being issued before the Commission closes at the end of March 2015, looks at the landscape of fraud against councils and how this has changed since 1990, when the Audit Commission first turned the spotlight on to local government fraud with its 'Protecting the Public Purse' reports. The report highlights that:

- In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.
- In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.
- Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.
- Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.
- Councils are detecting more housing tenancy fraud and more fraud in schools.

The report includes a number of recommendations for all Local Government bodies and a self assessment checklist to review the counter fraud arrangements in place.

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has an net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"*we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose.*"

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

Audit & Governance Committee
Meeting to be held on 26 January 2015

Electoral Division affected: All

External Audit
Lancashire County Council
Annual Audit Letter
(Appendix A refers)

Contact for further information:
Karen Murray, 0161 234 6364, Director, Grant Thornton
karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Letter summarises the outcome of our work in 2013/14. It includes the key messages in relation to the financial statements audit and audit opinion, and Value for Money (VfM) conclusion.

The Annual Audit Letter was reported to Cabinet in December 2014.

Recommendation

The Audit & Governance Committee is asked to note the annual audit letter.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Council's management and has been reported to Cabinet.

Implications

Not applicable

Risk management

No significant risks have been identified.

Lancashire County Council

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Appendix A

Grant Thornton

The Annual Audit Letter for Lancashire County Council

Year ended 31 March 2014

October 2014

Karen Murray
Director
T 0161 234 6364
E karen.l.murray@uk.gt.com

Len Cross
Audit Manager
T 0161 234 6387
E leonard.e.cross@uk.gt.com

Contents

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Lancashire County Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	We reported our findings arising from the audit of the financial statements for both the County Council and the Pension Fund in our Audit Findings Reports on 29 September 2014 to the Audit & Governance Committee. The key messages reported were: • None of the agreed adjustments to the primary financial statements impacted on the Authority's financial position or that of the Pension Fund; • A number of changes were made in response to audit findings to more fully meet disclosure requirements, improve consistency within the Statement of Accounts and to correct trivial arithmetical and presentational errors; • There were no recommendations arising from our 2013/14 opinion audit on the accounts for the County Council or the Pension Fund We issued an unqualified opinion on the Council's 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. We also issued an unqualified opinion on the Pension Fund accounts on 30 September 2014. Our opinion confirms that the financial statements give a true and fair view of the financial transactions of the fund and of it's assets and liabilities.

Key messages

Value for Money (VfM) conclusion

On the basis of our work, and having regard to the guidance on the specified Value for Money criteria published by the Audit Commission, we are unable to conclude the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

As we reported to the Audit and Governance committee on 29 September 2014, this conclusion takes account of the balance between those areas where the Council's arrangements are demonstrably strong, and the areas of corporate and financial governance where the Council has recently identified a number of fundamental weaknesses in its arrangements in relation to:

- Two procurement processes;
- The relationship with, and operation of, the Council's strategic partnership and associated joint venture company; and
- Salary payments made to the then Chief Executive of the Council's joint venture company.

In addition, we have taken account of the fact that the Council's Chief Internal Auditor gave an overall opinion of limited assurance in respect of her work for the year

We recognise that these governance issues have emerged during the 2013/14 year but that they relate to arrangements, decisions and actions taken in previous years. It is a positive sign that the Council is dealing with them appropriately. The actions to deal with them include:

- Referring matters to the police for investigation (which remains on-going) ; and
- Renegotiating the relationship with the strategic partner, including transferring a number fo services back in house.

Notwithstanding these issues, we recognise that the Council:

- has strong arrangements in place for financial planning;
- exercises good financial control across the Council;
- has a good track record of delivering on its savings plans and that its finances are strong, leaving it well placed to meet the challenge of taking £300m of annualised costs out of the annual revenue budget to March 2018

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of grant claims and returns	Our 2013/14 grant claim programme includes one claim covered by the Audit Commission's certification regime (Local transport plan – major projects). Our work on this return is not yet complete. We will report our findings to the Audit and Governance Committee in due course.
Audit fee	Our core audit fee for the 2013/14 Lancashire County Council audit was £150,560. This is in line with our planned fee for the year and is unchanged from the previous year. The fee for the audit of the Lancashire County Pension Fund, was £35,906 excluding VAT. This was also in line with our planned audit fee. Further detail is included within appendix A.

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	150,560	150,560
Audit Fee – Pension Fund	35,906	35,906
Grant certification fee	1,190	TBC
Total fees	**187,656**	**TBC**

Our work to certify the Council's grant claim is not yet complete. We will confirm the final fee once our work is complete.

Fees for other services

Service	Fees £
Waste PFI Contract	20,528

Reports issued

Report	Date issued
Audit Plan	June 2014
Audit Findings Report	September 2014
Annual Audit Letter	October 2014

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