Lancashire County Council

Audit and Governance Committee

Monday, 28th September, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

Lancashire County Council

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

12. Date of Next Meeting

The next meeting of the Committee will be held on 21 January 2016 at 2.00pm at County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Tuesday, 30th June, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	A Schofield
D Clifford	V Taylor
C Dereli	D Westley
J Gibson	D Whipp

County Councillors J Gibson, D Westley and D Whipp replaced County Councillors C Pritchard, G Driver and B Winlow respectively at this meeting.

Officers in attendance

Ian Young – Director of Governance, Finance and Public Services
Damon Lawrenson – Interim Director of Financial Resources
Abigail Leech – Head of Service Corporate Finance
Ruth Lowry – Head of Service Internal Audit
Karen Murray – Director, Grant Thornton
Caroline Stead – Grant Thornton
Chris Mather - Democratic Services Manager
Roy Jones – Legal and Democratic Services

The Committee agreed to alter the agenda running order with item 6 (The Council's Annual Governance Statement 2014/15) being taken after item 8 (Internal Audit Service annual report to Lancashire County Council for 2014/15).

1. Apologies

None.

2. Constitution: Chair and Deputy Chair; Membership; Terms of Reference

Resolved: That,

i. The appointment of County Councillors T Brown and D Clifford as Chair and Deputy Chair respectively of the Audit and Governance Committee for 2015/16 be noted.

ii. The membership of the Audit and Governance Committee for 2015/16 be noted.

iii. The Terms of Reference of the Audit and Governance Committee be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

4. Minutes of the Meeting held on 13 April 2015

Resolved: That the Minutes of the meeting held on 13 April 2015 be confirmed and signed by the Chair.

5. Update on Treasury Management Activity

The Committee considered a review of Treasury Management activities in 2014/15. Management activities were regulated by the CIPFA Code of Practice and it was best practice to review treasury management activities on a regular basis.

The review included:

- A review of the economic conditions during 2014/15;
- Borrowing activity;
- Investment activity; and
- Actual results measured against 2014/15 Prudential indicators and Treasury Management Indicators

The following summary of treasury management activities in 2014/15 was presented:

- The council re-financed £573m of short term borrowing as part of the treasury strategy to take advantage of very low interest rates.
- Total borrowing at 31 March 2015 was £1.036bn, an increase of £220m from the previous year. This was entirely due to the refinancing of the former Waste PFI contract.
- Overall the average interest rate paid on borrowing was 2.05% per annum.
- The total return on the investment portfolios for the 2014/15 financial year was 9.32% on an average investment balance of £864.961m.
- In total, the capital financing charges showed a surplus in-year of £69m.
- Credit risk was controlled through only dealing with very high quality investment counterparties. The average credit rating throughout the year has been AA, well above the target A+ rating.
- Liquidity was a priority for the council to ensure day to day obligations can be met. The council held £107m as cash and cash equivalents on 31 March 2015 along with a further £361m in bonds which were available for sale at current market prices should further liquidity be required.

- All Treasury Management activities in year complied with the CIPFA Code of Practice and none of the Prudential Indicators had been breached during the financial year 2014/15.

Resolved: That the review of treasury management activities in 2014/15 be noted.

6. The Council's Code of Corporate Governance

The Committee considered a draft revised Code of Corporate Governance for the County Council.

Members were reminded that the existing Code had not been reviewed since its adoption by the County Council in 2008 and that the Council's Annual Governance Statement for 2013/14 included a commitment to review the Code during 2014/15.

An initial draft of a revised Code had been presented to the Committee in April 2015 and a final version of the draft Code was now presented at Appendix 'A'. It was noted that the revised Code included an updated Action Plan and sources of evidence to provide clarity about how the Council used the principles of the Code in practice.

The Committee was informed that the revised Code of Corporate Governance would need to be agreed by the Committee and recommended to Full Council for approval. Once adopted it was proposed that the Code be reviewed on an annual basis with an update on actions being presented to the Committee in early 2016.

Resolved:

i. That the draft revised Code of Corporate Governance, as set out at Appendix 'A' be agreed and recommended to the Full Council for approval.

ii. That the Full Council be recommended to agree to the Code of Corporate Governance being reviewed on an annual basis.

7. Internal Audit Service annual report to Lancashire County Council for 2014/15

The Committee considered the Internal Audit annual report for 2014/15.

The report summarised the work of the Internal Audit Service during 2014/15 and the key themes arising in relation to internal control, governance and risk management across the council.

The Committee was informed that the Head of Internal Audit could provide no overall assurance for 2014/15. The level of assurance provided had gradually deteriorated since 2010 and in light of the exceptional circumstances of the last two years, which were expected to continue into 2015/16, the Internal Audit Service had been unable to complete a risk-based programme of work in 2014/15 to support an opinion on the council's overall framework of governance, risk management and control.

It was noted that at the Management Team's request internal audit work during 2014/15 had been directed towards re-assessing key areas of control weaknesses and following up the actions agreed by management to improve controls across a number of systems and services identified in earlier years' reviews. A senior member of the team had also been seconded out of the Internal Audit Service from September 2014 onwards to support management in assessing the actions taken in key risk areas.

This work having been undertaken, the Head of Internal Audit was able to provide substantial assurance that, with only one exception, appropriate efforts had been made to rectify the controls over all areas of high and moderate risk. Substantial assurance had also been provided that the controls over two high risk financial systems – general ledger and treasury management – as well as the payroll and central accounts payable systems, were adequately designed and operating effectively.

Council officers and the External Auditor responded to questions raised by the Committee in relation to the gradual deterioration in the level of assurance provided by the Head of Internal Audit, the targeted work on behalf of the Council's Management Team and the effects and implications of the Council's transformation programme and general downsizing, as well as the support and training that would be made available to the new Heads of Service.

Resolved: That the Internal Audit annual report to the authority for 2014/15, as set out at Appendix 'A' to the report now presented, be noted.

8. The Council's Annual Governance Statement 2014/15

The Committee considered a draft revised version of the Annual Governance Statement (AGS) for 2014/15.

An initial draft was presented to the Committee in March 2015. The Committee was informed that officers had now revised the draft AGS to incorporate the opinions expressed in the Internal Auditor's annual report, the Council's response to the emerging governance issues and other relevant issues. The revised AGS was presented at Appendix 'A'.

In particular, the Committee's attention was drawn to the following:

- Once embedded it was hoped that the new Income and Debt Management Policy would result in a substantial assurance being given;

- Improvements in the Council's Information Governance arrangements had resulted in the Council achieving 94% compliance with the NHS toolkit;
- It was important that a systematic approach to identifying strategic risks and opportunities was embedded across the Council. Grant Thornton had facilitated a workshop to assist in this process. The workshop had identified that whilst risk management happened "in practice", the lack of a clear and systematic corporate approach was a weakness;
- A Risk and Opportunity map was being developed and work was in hand to set the right governance structures, to assign clear responsibilities and roles, to agree the corporate approach and to provide appropriate training.
- Going forward it was proposed to present a quarterly risk update to Management Team, as well as monitoring reports to the Cabinet Committee for Performance Improvement and importantly to this Committee. Once a proposal for a corporate approach had been finalised, a report would be presented to the Committee for consultation;
- Prior to the next meeting of the Committee a self-assessment exercise would be undertaken involving Committee Members and training arranged accordingly.

Resolved:

i. That the draft of the Annual Governance Statement for 2014/15, as set out at Appendix 'A' now presented, be approved for inclusion in the draft Statement of Accounts.

ii. It be noted that the Annual Governance Statement will be signed by the Chief Executive and Leader of the Council and published on the Council’s website following the final approval of the Statement of Accounts at the Committee's meeting on 28 September 2015.

9. External audit update report

The Committee considered an External Audit update report including progress to date with the 2014/15 audit of accounts, Value for Money (VfM) conclusion and other work. The report also provided additional information on emerging issues and developments.

It was noted that further work needed to be undertaken and discussed with management prior to the final VFM conclusion.

Resolved: That the External Audit update report be noted.

10. Response of Chair of Audit Committee to Grant Thornton request for information to support its compliance with International Standards on Auditing

The Committee considered a response to Grant Thornton's request for information to support its compliance with international standards on auditing and quality control.

The Chair of the Audit Committee was asked to provide information in respect of Lancashire County Council relating to fraud and internal control.

A response to the commission had been prepared for consideration by the Committee and was set out at Appendix 'A' to the report.

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

11. External Audit - Lancashire County Pension Fund Audit Plan 2014-15

The Committee considered a report on the External Audit Plan for the audit of the Pension Fund for 2014/15.

The Audit Plan set out the main risk areas which the audit would focus on and how the audit team plans to obtain the necessary assurances, including:

- The two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;

- The risk of incorrect valuations on Level 3 investments, which by their nature required a significant degree of judgement to reach an appropriate valuation at year end; and

- Other key risks areas around member data, investments, contributions and benefits payable.

The Committee noted that the fee for the audit of the Pension Fund had been set at £35,906 and that the fee was the same as that charged in 2013/14.

The Committee also noted that the Plan had been reported to Council's Pension Fund Committee on 27 March 2015 and that the Committee had raised no comments.

The Committee was informed that the Pension Fund Committee at its meeting on 2 July 2015 would be considering an update on the creation of an Asset and

Liability Management Partnership with the London Pension Fund Authority. A decision on whether to proceed with the development a detailed business case would be determined at that meeting. It was confirmed that External Audit had been in regular discussions with council officers on this matter and that these would continue should the Pension Fund Committee agree to proceed to the next stage.

Resolved: That the External Audit Plans for the audit of the County Pension Fund for 2014/15, and the fees therein, be agreed.

12. Urgent Business

None.

13. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 28th September 2015 at 2:00pm at County Hall, Preston.

14. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following item of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

15. Whistleblowing, Counter- Fraud and Special Investigations Annual Report 2014/15

(Not for Publication – Exempt information as defined in Paragraphs 1, 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

The Committee considered the Internal Audit Service annual whistleblowing, special investigations and counter-fraud report for 2014/15.

Resolved: That the Internal Audit Service annual whistleblowing, special investigations and counter-fraud report for 2014/15 be noted.

I Young
Director of Governance, Finance and Public Services

County Hall
Preston

Audit and Governance Committee
Meeting to be held on 28 September 2015

Electoral Division affected: None

Update on Treasury Management Activity
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

The report set out in Appendix 'A' is a review of the County Council's treasury management activities in 2015/16. 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 2015/16,
- Borrowing activity,
- Investment activity,
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators.

Recommendation

The Committee is recommended to note the review of treasury management activities in 2015/16 for the period 1 April to 31 July 2015.

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 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 Interim Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

Lancashire County Council

This report outlines a review of the borrowing and lending activity during the period 1st April to 31st July 2015 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's investments.

Consultations

Arlingclose Ltd provides advice on treasury management.

Implications

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2015/16	Feb 2015	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Appendix A

Treasury Management Activity 1st Report 2015-16

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 April 2015 and 31st July 2015.

2. Economic Context in the period

As the period progressed, economic data activity was largely overshadowed by events in Greece. Markets' attention centred on whether Greece would default on its debt repayments and the potential of Greece leaving the Euro. If Greece did leave the Euro it was expected that there would be a detrimental impact on other economies including the UK with the small risk of contagion into other Eurozone peripheral economies, such as Portugal, Ireland and Spain. After 61% of Greek voters chose to endorse a call for a "no" to more austerity, Greece's creditors refused to compromise and a default to the European Central Bank on 20th July 2015 looked possible. This would have put Greece's membership of the Euro in serious doubt. A Eurozone bailout agreement was reached to prevent a default. This has not ended the crisis as there will be an election in Greece in September which will delay, or potentially stop, the implementation on the austerity measures proposed as part of the bail-out.

Despite the global uncertainty, the UK economy remained resilient over the period. Economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.9%. GDP has now increased for nine consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before returning to +0.1%. In the May Quarterly Inflation Report, the Bank of England expected inflation to hover around zero in the near-term due to falls in energy and food prices. The Bank was sanguine that that negative inflation would prove temporary without any damaging consequences for the UK economy. Further improvement in the labour market saw the unemployment rate for March fall to 5.5% of the economically active population. Average earnings excluding bonuses rose 2.2%.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

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. There has been no movement in the base rate since then.

2.2 Implications for Lancashire County Council Treasury Strategy

Since 2010 the County Council have used short term market borrowing to fund 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 continue 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 Treasury Management Policy

Full Council approved the 2015/16 treasury management strategy at its meeting on 12th February 2015. The County Council's stated Treasury Management objectives are:

a) To ensure the security of the principal sums invested which represent the County Council's various reserves and balances,
b) To ensure that the County Council has access to cash resources as and when required,
c) To minimise the cost of the borrowing required to finance the County Council's capital investment programme, and
d) To maximise investment returns commensurate with the County Council's policy of minimising risks to the security of capital and its liquidity position.

3.1 Investment Activity

Investments at the 31st July are £711.94m consisting of £176.81m in bank and Local Authority deposits and £535.13m in bonds. In total investments have increased by £75.37m over the period. The table below shows the investment activity between 1st April 2015 and 31st July 2015.

Bank and Local Authority Deposits	Call/MMF £m	Fixed £m	Structured £m	Total £m
Balance 1 April 2015	**107.25**	**56.50**	**74.46**	**238.21**
Maturities	-101.18	0.00	-35.13	-136.31
New Investments	74.78	0.00	0.13	74.91
Balance 31 July 2015	**80.85**	**56.50**	**39.46**	**176.81**
Bonds	**LA Bonds £m**	**Gilts £m**	**Others £m**	**Total £m**
Balance 1 April 2015	**36.70**	**73.80**	**287.86**	**398.36**
Maturities	-0.58	-78.19	-216.17	-294.94
New Investments	0.17	298.67	132.87	431.71
Balance 31 July 2015	**36.29**	**294.28**	**204.56**	**535.13**

Within the period, there has been an increase of £221m in the amount of Gilts being held. Gilts are a low risk investment and the switch into Gilts is part of the County Council's policy of reducing the credit risk of its investments. There has been a corresponding reduction in Bank and Local Authority deposits of £61m and other bonds of £83m. In addition the County Council has received grants in the first quarter, some of which have been received in advance of the need to incur the expenditure. This has generated a requirement for short term investment of these funds.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 1.28% which compares favourably with the benchmark 7 day LIBID which averages 0.35% over the same period.

3.2 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 1st April 2015 and 31st July 2015.

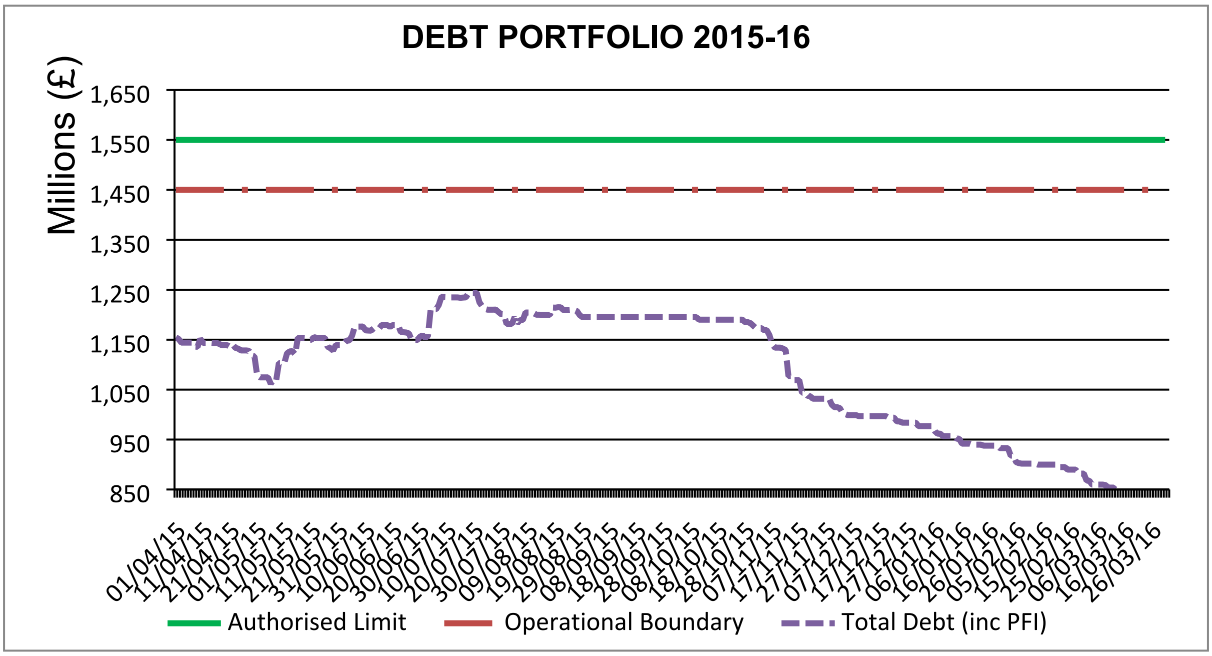
Borrowing	**PWLB Fixed £m**	**PWLB Variable £m**	**Long Term Market Loan £m**	**Other Locals £m**	**Police, Fire & Lancashire District Councils £m**	**Total £m**
Balance 31 April 15	**213.10**	**125.75**	**52.23**	**573.00**	**71.46**	**1,035.54**
New Borrowing	0.00	0.00	0.00	297.40	191.71	489.11
Maturities	0.00	0.00	0.00	-303.50	-158.24	-461.74
Balance 31 July 15	**213.10**	**125.75**	**52.23**	**566.90**	**104.93**	**1,062.91**
Public Finance Initiative (PFI) Liability	-	-	-	-	-	172.00
Total Borrowing & PFI						**1,234.91**

The outstanding borrowing has increased by £27.37m in the period. The increase in borrowing reflects the re-financing of deals maturing in the near future in order to take advantage of current low interest rate offers from other Local Authorities.

The increased borrowing in the period is due to the need to re-borrow for the Waste recycling centre loans. In July 2015 the Waste PFI contract was terminated and the debt was replaced with a number of short term loans which have now matured.

Total borrowing now stands at £1.235bn including the financing of £172m of assets through remaining non-waste PFI schemes.

The graph below shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. The debt shown from 1st August 2015 represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.



The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.

The Operational Boundary is 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.

Total debt during the year has remained below the Operational Boundary.

The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.69%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured on 31st March 2015) is 4.13%.

4. Budget Monitoring Position

The net financing charges budget for 2015/16 is forecasted to be £8m lower than budget at the end of the financial year. The reasons for this are:

- The refinancing of the waste recycling centres was initially anticipated to be repaid on a straight line basis. However, the decision has been taken to make the repayment on an annuity basis. This has resulted in a reduced Minimum Revenue Provision (MRP) of some £5.6m. It is estimated to be a similar amount for the next two years.
- When calculating the estimated MRP it was planned to apply up to £39m of borrowing in 2014/15. Due to the re-phasing of the Capital Programme this borrowing was not required thereby reducing requirement to charge the MRP in 2015/16.
- Higher than budgeted interest received of £1.712m is primarily due to the increased value of the County Council's low risk investment portfolios following market movements during recent months. This enabled some core Gilt bonds to be sold resulting in a net gain of £1.55m.

- The saving on the MRP and higher than budgeted income received are offset by the agreed contribution towards the Todmorden Curve Rail project of £0.800m which was not in the original budget.

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

5. Prudential Indicators 2015/16

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.

The County Council are within the Prudential Indicators as detailed in Annex 1.

6. Credit Rating issued by Moody's

The County Council's credit rating is reviewed by Moody's on a yearly basis. This review was completed in the period and the rating remained unchanged at Aa2, which is a high credit rating. The rating is in place for the Council to issue its own bonds at an appropriate time.

7. Outlook

There is still significant economic uncertainty especially as a result of the slow-down in the economic growth in China. In response to this, during August 2015 the Chinese government reduced its interest rates and revalued its currency which raises concerns over deflationary pressures in the world economy. This uncertainty makes it unlikely that there will be an increase in interest rates in the short term. The County Council's treasury management consultants Arlingclose Ltd are forecasting the first rise for official bank interest rates to be in the second calendar quarter of 2016 with a gradual pace of increases thereafter and the average bank rate for 2015/16 being 0.5%. Consequently, the Treasury Management Strategy set in February 2015 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.

Annex 1

Prudential Indicators

1. Adoption of CIPFA Treasury Management Code of Practice	Adopted

2. Authorised limit for external debt The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.	**2014/15**	**31st July 2015 Actual**
	£m	**£m**
Borrowing	1,300	1,063
Other long term liabilities (PFI schemes)	250	172
TOTAL	**1,550**	**1,235**

3. Operational boundary for external debt The Operational Boundary is 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.	**2014/15**	**31st July 2015 Actual**
	£m	**£m**
Borrowing	1,250	1,063
Other long term liabilities (PFI schemes)	200	172
TOTAL	**1,450**	**1,235**

4. Capital Financing Requirement to Gross Debt The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.	**2014/15**	**31st July 2015 Actual**
	£m	**£m**
Capital Financing Requirement	861	830
Estimated gross debt	1,010	1,063
Debt to Capital Financing Requirements	117%	128%

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 financial requirement calculation.

The County Council confirms that it has complied with its Prudential Indicators for 2015/16 which were approved on 26th February 2015 as part of the County Council's Treasury Management Strategy Statement.

Treasury Management Indicators

1. Interest Rate exposure The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.	Upper Limit	Actual
	£m	£m
Net Interest Payable – Fixed Rate	50.40	5.70
Net Interest Payable – Variable Rate	5.00	2.40
1 year impact of a 1% rise	10.00	1.60

2. Maturity structure of debt The limit on the maturity structure of debt helps control refinancing risk.	Lower Limit %	Upper Limit %	Actual %
Under 12 months	-	75	41
12 months and within 2 years	-	75	24
2 years and within 5 years	-	75	8
5 years and within 10 years	-	75	6
10 years and above	25	100	21

3. Investments over 364 days The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.	Upper Limit	Actual
	£m	£m
Total invested over 364 days	900	585

4. Minimum Average Credit Rating To control credit risk the County Council requires a very high credit rating from its treasury counterparties.	Benchmark	Actual
Average counterparty credit rating	A+	AA+

Audit and Governance Committee
Meeting to be held on 28 September 2015

Electoral Division affected: All

Approval of the County Council's and County Pension Fund's Letter of Representation 2014/15

(Appendices 'A' and 'B' refer)

Contact for further information:
Abigail Leech, 01772 530808, Head of Corporate Finance, Financial Resources
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Executive Summary

According to International Standards on Auditing (UK and Ireland) 580; the external auditors, Grant Thornton, are required to obtain written representations from those charged with governance and management of the county council; on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist.

The County Council's Management Representation Letter is attached at Appendix 'A' and the County's Pension Fund Management Representation Letter is attached at Appendix 'B'.

The Section 151 Officer and the Chair of the Audit and Governance Committee sign the Management Representation Letter on behalf of Lancashire County Council and Lancashire County Pension Fund and forward it to the external auditors after obtaining agreement from the Audit and Governance Committee.

Recommendation

The Committee is requested to discuss and agree the management representation letters at Appendices 'A' and Appendix 'B'.

Background and Advice

The regulations governing the production of the annual accounts require that the 2014/15 accounts should be approved on or before the 30th September 2015 and the Management Representation Letter should be made available to the external auditors (as part of the audit evidence) before the audit report is issued.

Consultations

Within the International standards on Auditing (UK and Ireland) the county council is required to provide the Management Representation Letter to the external auditors.

Implications:

This item has the following implications, as indicated:

Risk management

The Management Representation Letter needs to be discussed and agreed by the Audit and Governance Committee on or before the 30 September 2015, before the audit report is issued.

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

Papers	Date	Contact/Directorate/Ext
Management Letters of Representation	2014/15	Abigail Leech, Head of Corporate Finance, Financial Resources Tel : 01772 530808
International Standards on auditing (UK and Ireland) 580		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Appendix 'A'

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

Phone:
Fax:
Email:

Your ref:
Our ref:
Date:

Dear Sirs

LANCASHIRE COUNTY COUNCIL
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2015

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Council for the year ended 31st March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

We confirm that to the best of our knowledge and belief having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code"); which give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Contd …..

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent;
b. none of the assets of the Council has been assigned, pledged or mortgaged;
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached in Appendix 1. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

xiv The financial statements are free of material misstatements, including omissions.

xv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xvi We believe that the Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Contd ……

xvii We confirm there are no material omissions in the accounts from licences acquired as part of the purchase of the waste management company.

Information Provided

xviii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xix We have communicated to you all deficiencies in internal control of which management is aware.

xx All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xxiii We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxiv We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Contd ……

Annual Governance Statement

xxvii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

This letter of representation was approved by the Council's Audit and Governance Committee at its meeting on 28 September 2015.

Yours faithfully

Name……………………………………………..…

Position……………………………………..……….

Date…………………………………………………

Name……………………………………………..…

Position…………………………………………..

Date…………………………………………………

Signed on behalf of the Council

Appendix 1 Unadjusted misstatements

	Detail	Balance Sheet £m	Reason for not adjusting
1	Included within the long term debtors balance is £3.3m of debtors which should be classified as short term.	3.3m	The client have declined to amend the accounts for this finding on the grounds of materiality.
	Overall impact	**3.3**	**Classification on the balance sheet only.**

Appendix 'B'

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Lancashire County Council

FAO Gareth Kelly
Senior Manager, Audit
Grant Thornton UK LLP
C/O Cumbria County Council
The Courts
English Street
Carlisle
CA3 8NA

Phone: 01772 530808
Fax:
Email: Abigail.leech@lancashire.gov.uk

Your ref:
Our ref:
Date: 28 September 2015

Dear Gareth

Lancashire County Pension Fund Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with your audit of the financial statements of Lancashire County Pension Fund ('the Fund') for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2015, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2 We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

3 The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

7 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8 Except as disclosed in the financial statements:
   a) there are no unrecorded liabilities, actual or contingent
   b) none of the assets of the Fund have been assigned, pledged or mortgaged
   c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

9 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

10 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

11 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

12 The financial statements are free of material misstatements, including omissions.

13 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

14 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

15 We have provided you with:

a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b) additional information that you have requested from us for the purpose of your audit; and
c) un-restricted access to persons from whom you determined it necessary to obtain audit evidence.

16 We have communicated to you all deficiencies in internal control of which management is aware.

17 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

18 All transactions have been recorded in the accounting records and are reflected in the financial statements.

19 We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
a) management;
b) employees who have significant roles in internal control; or
c) others where the fraud could have a material effect on the financial statements.

20 We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

21 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22 There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

23 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

24 We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

25 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

This letter of representation was approved by the Council's Audit & Governance Committee at its meeting on 28 September 2015.

Yours faithfully

Name……………………………
Position………………………….
Date…………………………….

Name……………………………
Position………………………….
Date…………………………….

Signed on behalf of Lancashire County Council as administering authority of the Lancashire County Pension Fund.

Audit and Governance Committee
Meeting to be held on 28 September 2015

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2014/15
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, 01772 530808, Head of Corporate Finance, Financial resources
abigail.leech@lancashire.gov.uk

Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The 2014/15 accounts should be approved on or before the 30 September 2015.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2014/15; the Statement itself is attached as Appendix A.

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

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2014/15 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

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

The regulations governing the production of the annual accounts require that the 2014/15 accounts should be approved on or before the 30th September 2015.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2014/15; the statement itself is attached as Appendix 'A'.

1. Preparation of the Statement

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

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

2. Main Components of the Statement

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

ITEM	PAGE	BRIEF EXPLANATION
Introduction	1	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	7	The external auditor's opinion on our accounts for 2014/15
Statement of Responsibilities	11	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	12	Sets out assurances on our governance arrangements and the way we manage our affairs.
Movement in Reserves Statement	30	Provides details of the movement in reserves held by the council.
Comprehensive Income and Expenditure Statement	33	A summary of the revenue expenditure and income of the Council, analysed by service in accordance with the Code. This statement consolidates all gains and losses experienced by the authority during the financial year.
Balance Sheet	35	Our assets and liabilities at 31 March 2014, 31 March 2015, and how these are funded.
Cash Flow Statement	37	An analysis of revenue and capital cash movements during the year.

Notes	38	Supporting information which sets out further details and explanations of many entries within the financial statements listed above.
Statement of Accounting Policies	38	Details compliance with the Code and the policies adopted for the preparation of the accounts on an IFRS basis detailed in disclosure note 1.
Other Funds and Reserves	120	Presents information on trust funds (not part of the Council's accounts).
Lancashire County Pension Fund accounts	122	Presents the accounts of the Pension Fund (not part of the Council's accounts).
Glossary of Terms	174	Explains terms used in the Statement

3. Status of the Statement of Accounts

Details of the Council's spending and income in 2014/15, and how it compared with the budget, was reported to the Cabinet on 9 July 2015. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

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

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 32) follows the compulsory Service Reporting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council.

- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 6 (page 56) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystallise at the same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

4. Financial Statements

4.1 General

There are some presentational changes between the draft and final accounts as a result of an exercise to de-clutter the disclosure notes. The exercise was undertaken in conjunction with Grant Thornton, the external auditors; with the aim of making the accounts more user- friendly.

4.2 Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2013/14 and 2014/15 usable reserves have increased by £77m.

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

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

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

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

4.3. Comprehensive Income and Expenditure Statement (CIES)

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

The CIES is presented in two sections:

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

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

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

4.4. Balance Sheet

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

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

b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 32.

The main Balance Sheet movements from 31 March 2014 to 31 March 2015 are highlighted below (see paragraphs 4.4.1 to 4.4.3).

4.4.1 Long term assets decreased by £195.6m – the major changes are explained below:

a) Long term investments have decreased by £225.7m in line with the treasury management strategy to move from long term to short term investments. There is a corresponding increase in short term investments. Please see note 23 to the Statement of Accounts.

b) Long term debtors have increased by £33.1m as a result of recognising a new long term debtor (£35.1m) due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability. This increase is offset in part by £2.0m reduction in debt managed on behalf of other authorities and being paid off over time. Please see note 33 to the Statement of Accounts.

c) The balance of the reduction in long term assets comprises less significant movements in asset categories which are summarised below:

i. Property, plant and equipment value reduced by £1.8m
ii. Intangible assets reduced by £1.5m
iii. Heritage assets increased by £0.3m
iv. Investment property increased by £0.1m
v. Assets held for sale reduced by £0.1m

4.4.2 Current assets increased by £300m, of which the most significant area component is the increase in short term investments of £243.1m which, as stated above, is in line with the move from long term to short term investments. Other changes in current assets are outlined below:

a) Short term debtors increased by £25.9m. Of this movement, £12.8m relates to the supply of the regular activities and services of the council. Amounts due from NHS bodies and other Local Authorities have increased by £4.9m and £5.2m respectively. The remaining movement in short term debtors comprises increases in amounts due for council tax (£2.1m), non-domestic rates (£0.3m), from Central Government bodies (£0.5m) and other public corporations (£0.1m).

b) Cash and cash equivalents have increased by £38.9m. This reflects the cash which is being held in call accounts in order to meet the day to day operational demands of the organisation.

c) There have been reductions in payments in advance (£3.7m), assets held for sale (£4.1m) and inventories (£0.1m) during the year.

4.4.3 Current liabilities increased by £189.6m, the major changes are shown below:

a) Short term borrowing increased by £190.2m. This increase reflects the additional borrowing taken out to refinance the funding of the waste plants following the termination of the PFI waste contract.

b) Short term provisions have increased by £9.9m, substantially due to the increase in the provision for early retirement early severance payments arising from the transformation of the council.

c) The offsetting reduction in current liabilities comprises:

i. Short term creditors reduced by £6.6m
ii. Other current liabilities reduced by £2.9m
iii. Receipts in advance reduced by £1m

4.4.4. Long term liabilities have increased by £131.9m, with the most significant components being:

a) Increase in the pension liability of £333.1m, further details of which can be found in note 41 to the statement of accounts.

b) Reduction in PFI liabilities of £227.6m, of which £225.8m is due to the termination of the waste PFI contract. Additional information on this transaction can be found in notes 19 and 38 and in the introduction to the statement of accounts

c) Long term provisions reduced by £5.0m, of which £4.8m is a reduction in the insurance provision.

d) Long term borrowing has increased by £31.5m in line with the treasury management strategy and as a result of the refinancing of the waste plants.

Our net worth in the Balance Sheet has decreased by £217.1m from £1,103.2m at 1 April 2014 to £886.1m at 31 March 2015.

4.5 Cash Flow Statement

This statement reflects the total movement of cash and cash equivalents into and out of the organisation. The cash flow statement is shown at page 37 in the accounts.

5. Auditor's Report

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

- give a true and fair view of the state of Lancashire County Council's affairs as at 31 March 2015 and of its income and expenditure for the year then ended; and

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

Full details of the auditor's findings are contained within the 2014/15 Audit Findings Report which has been submitted to the Audit and Governance Committee as a separate item.

Throughout the audit process officers have continued to work on the Statement in order to ensure that it presents a comprehensive picture of the Council's finances. This has resulted in a number of changes from the draft which are set out in the auditor's findings report.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 37.

Consultations

Within the Accounts and Audit Regulations the County Council is required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2014/15 Accounts commenced on 6 July 2015 and ended on 31 July 2015. The accounts are available for Inspection on the Council's internet pages.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2014/15 must be approved by 30 September 2015 in order to meet its statutory deadlines.

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

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

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2014/15	Abigail Leech, Head of Corporate Finance, Financial Resources Tel : 01772 530808
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Statement of Accounts

2014-15

Lancashire County Council

www.lancashire.gov.uk

Lancashire County Council
Draft Statement of Accounts 2014/15

Contents

Introduction to the statement of accounts

Purpose of the statement of accounts

This statement includes the formal audited accounts of the county council for the financial year 1 April 2014 to 31 March 2015. The production of the statement is prescribed by statute; it is prepared in accordance with the Accounts and Audit Regulations (England) 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

The statement gives the reader an overall impression of the finances of the county council for the financial year 2014/15. It is one of a series of reports and publications on the council's finances and financial position.

Contents of the statement of accounts

The main parts of the statement of accounts are:

- **The Independent Auditor's Report** – the external auditor's opinion on our 2014/15 accounts.
- **The Annual Governance Statement** – assurances on our governance arrangements and the way we manage our affairs.
- **The Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting purposes. The net increase/decrease before transfer to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **The Comprehensive Income and Expenditure Statement** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** – shows the value as at the balance sheet date of the assets and liabilities recognised by the council. The net assets of the county council are matched by the reserves held. Reserves are reported in two categories, usable and unusable.
- **The Cash Flow Statement** – shows the changes in cash and cash equivalents of the council during the reporting period.
- **The Notes to the Accounts** – supporting information which sets out further details and explanations of many entries within the financial statements listed above
- **The Pension Fund Accounts** – a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the county council. A Pension Fund annual report will be published for members of the fund, which will include these accounts.

Revenue spending in 2014/15

The overall financial health of the county council at the end of the 2014/15 financial year continues to be strong. However, over 2015/16 to 2017/18 the county council is facing a considerable financial challenge including reducing resources, as well as cost pressures from the continuing increase in demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

Despite the difficult environment the council has continued to demonstrate:

- Strong financial management, through managing the costs of demand led services within budget and demonstrating the ability to bring forecast service overspends back within budget.
- Strong delivery arrangements through achieving the delivery of savings early throughout the three year budget.
- Innovation through the successful implementation of the Treasury Management strategy, and
- Flexibility through redeploying resources to address the county council's priorities.

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

During the year there was a major change in the financing of the operation of the waste treatment facilities. The PFI agreement between Lancashire County Council (LCC) and Global Renewables Lancashire Limited (GRLL) was brought to an end by the mutual consent of both parties. The termination was approved by LCC cabinet on 15 July 2014 and took effect from 31 July 2014. Immediately following the termination, and with effect from 1 August 2015, the two strategic waste management facilities and Leyland and Thornton were transferred to LCC with no interruption in operation. The PFI liability in respect of the waste project was settled as a result of the termination, through borrowing. The refinancing has resulted in an in-year revenue saving of £6.2m for the 8 month period since termination of the agreement. This is line with an expected reduction in annual debt servicing costs of £9.0m. The negotiated settlement value was greater than the PFI liability which existed at the termination date and the difference of £24.3m has been treated as a premium on early repayment of debt. The premium is being amortised over the remaining 23 years of the borrowing, this timeframe having been set in line with the original PFI contract timescales and representing the remaining economic life of the waste plants.

The final position in respect of spending on the revenue budget was an underspend of £76.1m largely arising in the following areas:

a) An underspend of £14.3m in the Environment directorate mainly due to savings being achieved within the waste budget referred to above, expenditure on subsidised bus services being lower than budgeted with contract costs being smaller due to lower fuel costs and tender prices not being increased to recover the Bus Service Operators Grant which was previously paid directly to bus operators but is now paid straight to local authorities and concessionary travel also underspending due to lower fuel costs and reduced passenger journeys.

b) Corporate spending was £1.9m less than budget, the majority of which relates to £1.6m underspend on the Care and Urgent Needs Support Scheme.

c) Lancashire County Commercial Group (LCCG) has delivered an underspend of £2.5m due to ongoing operational efficiencies within the services, the uptake on free school meals being higher than budgeted and occupancy levels in care homes being higher than budgeted.

d) The 2014/15 capital financing outturn is £69.6m under budget mainly due to gains realised following the sale of bonds. These sales have been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

e) There was a negative variance of £10.4m in relation to the various budgets for the services provided by BT Lancashire Services (BTLS). The most significant cause of this was due to Cumbria Lancashire Education Online (CLEO), payroll and ICT income levels being below budget.

The underspend in 2014/15 has allowed the council to end the year with the County Fund balance unchanged at £36.0m. In addition the council has made a contribution of £69.6m to the Risk Management Reserve and a contribution of £6.5m to the Downsizing Reserve. These will be used to meet the costs of reshaping the organisation to manage the risks and meet the financial challenges ahead.

Capital spending in 2014/15

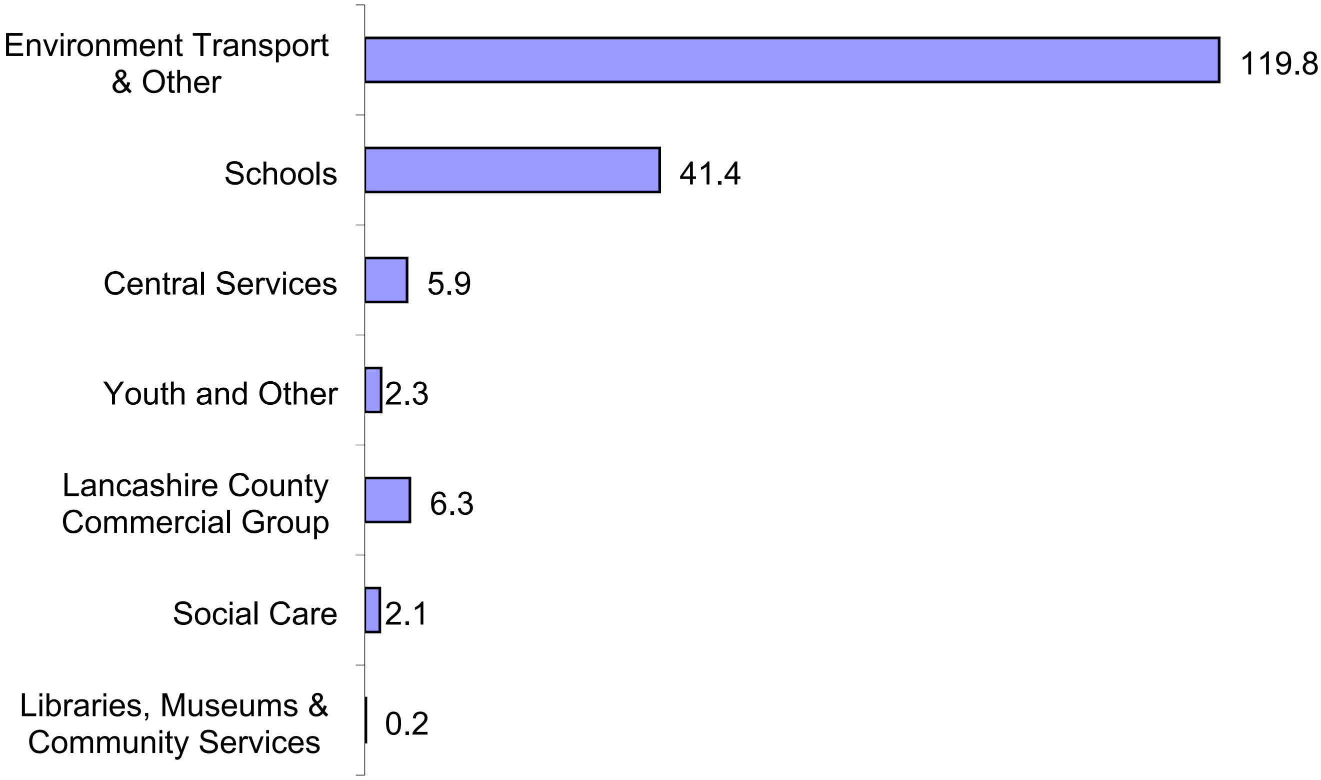
The total of the county council's capital spending in 2014/15 was £178.0m. This reflects the county council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

- The completion of fourteen projects, to expand Primary Schools to meet demand for places.
- The completion of an intensive support centre at Hillside Specialist School for Autism, to increase capacity in Lancashire Special Schools.
- Conclusion of the phased programmes of condition projects at over 50 schools.
- The completion of the major new build scheme at Windermere Tower Wood Outdoor Education Centre.
- Completion of a programme of works to improve kitchen ventilation in Lancashire Care Homes.
- Completion of a new building for West Lancashire Youth Zone and various Youth Satellite projects throughout the county.
- Completion of the County Hall, Christ Church Precinct refurbishment.
- Completion of four small regeneration projects, in libraries.
- Over 67,000 potholes were identified by Highway Safety Inspections during 2014/15, of which 97% were repaired within 30 days.
- Work continues on the Heysham to M6 link road at total of £53.1m being spent in year.
- £26.9m was spent during 2014/15 on maintenance of highways. This included additional funding received from DfT to tackle potholes and the effects on the highway as a result of the extreme weather.
- Initial work on the West Lancashire and East Lancashire Master Plans was started. Examples of key schemes include the Burnley to Pendle Growth Corridor and the East Lancashire Cycle Network.
- Expenditure on the Growing Places Fund which promotes economic development initiatives within the county.
- Expenditure on economic development activities including the implementation of Superfast Broadband.

The expenditure was funded from government grants, other grants and contributions, capital receipts and revenue contributions.

The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2014/15 was £1,035.5m (£814.8m in 2013/14), excluding debt on PFI projects. This debt is higher than the previous year due to the refinancing of the waste PFI project. The average rate of interest paid on all this debt in 2014/15 was 2.05% compared with an average rate for 2013/14 of 2.48%.

The graph below shows our major areas of capital spending during the year (£m).



Full details of spending, income and budget variances are set out in the county council's end of year report 2014/15 to Cabinet on 9th July 2015. This is available on our website: http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=3457

Schools Spending

The schools funded via the county council increased their accumulated individual reserves by £0.5m.

The council has an agreed claw back policy in relation to schools with excessive balances. This will affect 14 schools resulting in £0.1m being recycled within the schools budget.

The overall picture on individual schools balances is shown below:

	Balance as at 1	Net change in	Balances as at

	April 2014	balances	31 March 2015
	£m	£m	£m
Nursery	1.0	(0.1)	0.9
Primary	32.1	4.5	36.6
Secondary	15.6	(3.1)	12.5
Special	6.0	(1.2)	4.8
Short stay Primary	0.3	0.1	0.4
Short stay Secondary	0.9	0.3	1.2
Total	**55.9**	**0.5**	**56.4**

Whilst the largest total movement has been in the primary sector, the secondary sectors have the greater mean change per school.

During 2014/15 no schools converted to academies. Out of 602 schools, 256 schools had an in year deficit as at 31 March 2015, 18 schools had deficit balances.

Outlook for the future

When full council agreed the 2015/16 budget on 12 February 2015 indicative budgets for 2016/17 and 2018/19 were considered as part of the strategy for reshaping the council. These showed a funding gap of £26.4m, consisting of £18.3m in 2016/17 and £8.1m in 2017/18. These budgets have been reviewed in the light of more up to date information and the time horizon for the financial strategy has been extended by three years to 2020/21. In August 2015 Cabinet was presented with an updated strategy. This showed a revised forecast of the spending gap from 2016/17 to 2020/21 of £294.6m of which revised savings of £71.4m have been identified. This leaves an outstanding funding gap of £223.2m by 2020/21. The Strategy will be constantly reviewed as more information becomes available on funding and as a result of decisions taken by the County Council on the future shape of its services. In addition to this there are other outstanding pressures on the council namely:

- Although the most recent demand forecasts are included in the budget any additional increases in demand will add further pressure to future budgets. The council continues to face significant budget pressures due to demands for Adults Social Care and Learning Disability Services. In addition, the impact of national changes relating to Ordinary Residence, the Winterbourne Concordat and Deprivation of Liberty Safeguards, adds further pressure on resources. Children's Social Care agency placement costs is another area affected by financial pressures due to increased demand. The council is working to source and commission suitable placement and support services, as well as focusing on recruiting and retaining foster carers.

- The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. The impact of business rates appeals presents a continuing risk to income from business rates.

- The resources to be received from the Government beyond 2015/16 is currently unknown. Future budget assumptions will continue to be reviewed in line with improved information and to ensure that appropriate time is available to consider potential strategies and policy options for the future.

Strong financial management will be maintained across the county council in 2015/16 and beyond in order to ensure that the county council can maintain an effective approach to the financial challenge ahead.

Abigail Leech

Acting Section 151 Officer

28 September 2015

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Statement of responsibilities for the statement of accounts

The county council's responsibilities

We must;

- make arrangements for the proper administration of our financial affairs and ensure that one of our officers has the responsibility for the administration of those affairs. In the county council, that officer is the Section 151 officer;
- manage our affairs to secure economic, efficient and effective use of resources and safeguard our assets;
- approve the statement of accounts.

The responsibilities of the Section 151 officer

The Section 151 officer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2015.

In preparing this statement of accounts, the Section 151 officer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent, and;
- complied with the local authority code.

The Section 151 officer also:

- kept proper, up-to-date accounting records, and;
- taken responsible steps to prevent and detect fraud and other risks.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the county council at 31 March 2015 and its income and expenditure for the year then ended.

Abigail Leech ACA

Acting Section 151 officer

28 September 2015

Annual Governance Statement – Financial Year 2014/15

The council's responsibilities

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Code is currently under review and a revised Code will be approved during 2015/16.

The purpose of the Governance Framework

The Governance Framework comprises the systems and processes, culture and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at Lancashire County Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

Governance issues in 2013/14

The Annual Governance Statement for 2013/14 highlighted that the county council had experienced exceptional challenges during 2013/14 which had absorbed and diverted a considerable amount of senior leadership time. These circumstances 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 which resulted in an overall limited assurance of the council's control environment.

The council's response to the Chief Internal Auditor's report 2013/14

The council's leadership and management team acknowledged that the exceptional events of 2013/14 had been a diversion having a direct impact on the assessment in the Chief Internal

Auditor's report. It was recognised that a number of key aspects of the report for 2013/14 which related to high risk areas of operation could be attributed to failures in the delivery of services by One Connect Limited (OCL). These had been addressed by the renegotiation of the Strategic Partnership arrangements and the return of key services to the council.

The Management Team gave serious and careful consideration to the Chief Internal Auditor's opinion on the council's control environment and confirmed its very strong commitment to ensure that basic controls were maintained and, particularly in those cases highlighted by the Annual Report, significantly improved. They expressed their commitment to ensuring that robust governance remained at the heart of the council's business and to ensure that areas of concern highlighted by the Annual Report would be rectified.

Some areas identified in the Chief Internal Auditor's Annual Report for 2013/14 had already been addressed through remedial actions reported to the Audit and Governance Committee. However, those remedial actions did not form part of the 2013/14 assurance judgement as the implementation of agreed action plans had yet to be audited.

All outstanding actions formed part of the Chief Internal Auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk assessed as limited or nil assurance would achieve at least a substantial assurance. To achieve that objective a senior auditor, working to a member of Management Team, was tasked with the specific responsibility of working with services within these categories to ensure that remedial actions were fully implemented. Regular progress reports were provided to Management Team and once this pre-audit work was judged to be complete these areas of work were referred back to Internal Audit for them to review and give a formal opinion.

The areas reviewed now form part of the Internal Audit Report for 2014/15. With only two exceptions all the areas of high or medium risk previously assessed as limited or nil assurance are now assessed as attracting substantial assurance. The opinions provided demonstrate significant improvements in services, particularly in relation to information governance where a new Information Governance Team has been established. An update report to the Audit and Governance Committee on 13 April 2015 set out the actions that have been completed including the creation of an Information Governance (IG) Framework; revised IG policies; the creation of a suite of mandatory IG training courses including an online course completed by over 12,000 staff; the establishment of new governance groups and new information sharing templates.

As a consequence of the improvements in IG the council has now achieved 94% compliance with the NHS Toolkit which is required for the NHS to provide sensitive patient data and the council is also now able to connect to the Public Services Network which offers secure access to government information. In view of the high number of serious security breaches that had occurred within 2013/14 and reported to the Information Commissioner's Office (ICO) it was also agreed that the ICO would undertake a voluntary audit. As a consequence of the audit the council will not now be subject to any more formal action in relation to the breaches reported. Whilst the outcome of the audit has resulted in limited assurance, the recommendations for improvement have been addressed and the ICO has commented that *"the council is in a great position to put the necessary controls in place before our follow-up in 6-9 months"*, a process that will be reported to the committee in due course.

Emerging governance issues in 2014/15

A number of risk areas emerged or came to prominence during 2014/15 including:

- The impact of the transformation process agreed by Cabinet and Full Council approving the senior management structure at grade 11 and above and the principles for recruitment for the whole workforce;
- The need to embed a systemic approach to identifying and managing strategic risks and opportunities;
- The introduction of the Care Act 2014 and pressures arising from new responsibilities in relation to Deprivation of Liberty Safeguards;
- The establishment of the Better Care Fund with partners in Health with a council contribution of £9.4m into the pooled fund;
- The council's decision to terminate the waste PFI contract with Global Renewables Ltd in July 2014 as a result of which the council took ownership of the waste recovery parks and operating company;
- The issue of legal proceedings concerning the catastrophic fire at Lancashire Business Park in 2011 which was resolved on terms benefitting both the council and LCDL;
- Procurement issues relating to a number of contracts for which Procurement Rules had to be waived as it would not have been possible to complete tender exercises before current contracts expired;
- Issues relating to the implementation of the Liquidlogic systems for adult and children's social care.

With the exception of risk management (see later), all of these risk areas have been the subject of detailed reports to Cabinet and other committees/ Lancashire County Developments Limited.

Chief Internal Auditor's Annual Report 2014/15

The Annual Report provides substantial assurance as regards the council's key financial controls. However, due to the approach taken to remedy areas of high/medium risk assessed in 2013/14 as attracting nil or limited assurance, it was not possible to complete the Audit Plan for the remainder of 2014/15. The Chief Internal Auditor's Annual Report does not therefore provide an overall opinion for 2014/15 and the assurances provided within the Annual Report for individual services must be seen in that context.

The Annual Report also identifies a number of key issues and themes (paragraphs 4.2 and 4.3). The following sections comment on those themes and other issues which have started to emerge during 2014/15 and which will continue to feature in 2015/16.

Risk Management

In relation to the need to embed a systematic approach to identifying strategic risks and opportunities, Management Team engaged Grant Thornton to facilitate a workshop for the purposes of identifying strengths and weaknesses in current practice; consider the trend and current pitfalls across the sector; identify the key strategic risks facing the council and consider the mitigation measures already in place or which should be introduced; and consider the practical next steps to formalise arrangements.

The workshop identified that whilst risk management happens "in practice" and that all major decisions are based on an appropriate analysis of risks and opportunities, effectively protecting the public, the lack of a clear and systematic corporate approach is a weakness. It also identified that elected members do not receive appropriate risk management information and training, that risks relating to key partnerships are not fully understood or managed, and that a risk register should be regularly reviewed and communicated to all relevant parties.

A Risk and Opportunity map is now in draft and work is in hand to set the right governance structures, assign clear responsibilities and roles, agree the corporate approach and provide appropriate training. It is proposed to classify risks and opportunities on a "PESTLEDO" basis:

- Political – government or local policy commitments
- Economic – meeting financial commitments, budgetary pressures etc
- Social – Changes in socio-economic trends
- Technological – the capacity to deal with the pace of technological change, the use of technology to manage demand
- Legislative – changes in the law
- Environmental – Environmental consequences of progressing the council's objectives
- Demographic – demographic changes in the locality
- Organisational – internal risks not imposed by the external environment

Once a proposal for a corporate approach is finalised a report will be brought to the Audit and Governance Committee for consultation purposes after training for committee members has been delivered.

The council's Transformation Programme

With effect from 1 April 2015 the transformation of the council's senior management structure at grade 11 and above is complete and the council now moves into the second phase that will see a new look organisation in place by April 2016.

The principles underpinning the second phase for staff at grade 10 and below remain the same as in the first phase but the task is quite different because of the scale of the change with around 12,000 staff in scope. Consultation on the proposed approach has now commenced, the intention being that as many staff as possible will be "slotted into roles" rather than having to go through a competitive recruitment exercise or, where that is not possible, with a greater use of closed ring fences.

There will be a far smaller proportionate reduction in staff numbers in the second phase relative to the first phase and there continues to be a commitment that no member of staff will be made compulsorily redundant before 1 April 2016.

Management Team accepts that 2015/16 will present challenges as the council transitions from the "old" to the "new", particularly given the need for services, some of them quite new, to deliver budget savings and regular risk review reports are provided to Management Team which assess the risks associated with the achievement of service offer savings.

Financial Management

The financial challenge facing the county council is unprecedented. Central Government funding is forecast to fall 24.7% over the period 2015/16 to 2017/18. The 2015/16 budget has been set within a framework that will deliver a financial strategy for 2015/16 to 2017/18. A balanced budget has been set for 2015/16 and indicative budgets set for 2016/17 and 2017/18 as part of the financial plan that will deliver the reshaping of the council and its operations. The service offers and resources approved will continue to be reviewed this year and the financial planning horizon widened to take into account the period up to 2020/2021.

The Service Offers agreed at the council's budget meeting in February recognise the need to manage demand more effectively, particularly in relation to social care, offering earlier help for those who need it and ensuring that preventative services are effective. Central to this service offer is the recognition for the council to work more closely with communities and partners to develop new ways of delivering services, targeting and combining public services where they can be the most effective.

The council has the availability of significant one-off resources to enable the effective downsizing of the staffing structure over 2015/16 to 2017/18 and beyond, including resources to fund voluntary severance. The county council will also invest in ICT and other service developments which will enable the council to deliver its savings programme and to provide risk management resources to ensure financial and service sustainability.

However, the council continues to face significant financial challenges in the period 2015/16 to 2017/18 and beyond. The council has delivered the 2014/15 Financial Plan through strong financial governance arrangements but there is considerable legislative, operational and delivery risk, and it is vital that the council maintains robust financial and operational monitoring to oversee the delivery of savings, and is able to take action to respond to the changing environment. The Director of Financial Resources provides regular reports on budget and performance to Management Team including an assessment of the delivery of savings identified in the 2015/16 budget.

The Better Care Fund

The council has recently entered into a planning and pooled budget arrangement with the Clinical Commissioning Groups (CCGs) known as the Better Care Fund (BCF). This plan sets out the Council's and CCGs' vision to deliver integrated health and social care systems to reduce demand on acute hospital and care home provision in favour of a sustainable integrated neighbourhood health and social care system. Lancashire's BCF plan has now been approved by Government without conditions.

The pooled budget for the BCF is £90 million, with a current council contribution of £9.4m, the pooled fund to be used for the purpose of commissioning services for citizens. The council will host and manage the pooled fund on behalf of itself and partners and will be responsible for its internal audit.

Peer Review

Last autumn, at the invitation of the Administration, the council underwent a Local Government Association Corporate Peer Review Challenge. The challenge process is primarily an improvement tool for councils and focuses on five core components that will help to provide an indication of a local authority's ability and capacity to deliver on its plans, proposals and ambitions. With this in mind, the particular areas of focus for the council's Peer Review Challenge covered the ongoing transformation process along with a general" health-check".

The Peer Review Challenge report has been accepted by the council as fair and balanced, picking out a lot of strengths within the council such as economic development and our work with other public sector partners. The report also however noted a number areas for improvement/key challenges including:

- relationships with the health system
- our role as a strategic leader for the county and opportunities for more collaborative working
- financial leadership
- a clear, set out programme for the transformation
- internal control and risks

These areas for improvement highlighted in the report have been included within the council's improvement plan for the new corporate strategy.

Procurement

The return of the Procurement Service to the council provided an opportunity for a high level review of contracts which initially identified that a significant number of contracts had either expired or were due to expire without any tendering process in place to award new contracts.

It was recognised that this placed the council at risk, both in terms of service delivery and the potential for legal challenge, and it was therefore agreed to waive Procurement Rules to extend existing contracts to allow time for full tendering processes to be carried out to put new contractual arrangements in place.

At the same time a Procurement Strategy was developed and, following a consultation exercise, approved by Cabinet in October 2014, recognising the need for effective and efficient procurement practices to operate at all levels within the council underpinned by an overarching Procurement Strategy. The Strategy was supported by a draft Procurement Improvement Action Plan which set out a number of specific changes that needed to be made in order for the council's procurement function to effectively deliver the strategy.

Proposals for a Combined Authority for Lancashire

An important recent development has been the exploration of alternative decision-making arrangements for Lancashire, including moves toward a Combined Authority model. To this end, local authorities in Lancashire have been actively working together to consider and define new governance and collaboration arrangements.

At this stage, a preferred governance model has yet to be identified. However, local councils recognise the need to explore enhanced arrangements capable of making robust and binding shared decisions. Leaders and Chief Executives are therefore exploring a fully-integrated approach to shaping, delivering and monitoring local growth and regeneration strategies. Agreement has been secured to undertake a governance review of all possible options.

Implementation of Liquidlogic

Liquidlogic has been implemented within both Adult's (LAS) and Children's (LCS) services. These projects have been a significant undertaking and have introduced significant changes to processes both for the frontline service but also throughout Finance and Procurement.

The systems have been generally well received within the frontline services but have been less successful within the back office services where the newly designed processes have not been as effective as anticipated. A post implementation review was therefore undertaken with BTLS assistance to establish what the processes should look like and to make best use of the core system modules.

As regards LCS, whilst information had been migrated into LCS from ISSIS, problems existed in relation to information flow through the system as effectively as it should. Problems also arose as a result of a decision to transfer care plans for historical cases across to LCS. This decision caused a backlog of work for staff and with hindsight it would have been better for LCS to have simply referred to these care plans being held on ISSIS as reviewed care plans were required within a six month period.

A risk log has been established to catalogue ongoing issues with LCS and resources set aside to address them with the intention of a new version of Liquidlogic being implemented in September 2015 that will improve functionality.

In relation to LAS, this went live in July 2014, introducing better financial governance between commissioned services and invoices. However, these changes resulted in significant issues with some payments to providers. This issue has now been addressed and an annual workplan has been agreed prioritising matters for business delivery in 2015/16 including a review of safeguarding processes and a post-implementation review for Adult Mental Health Services as well as introducing processes required by the Care Act.

Other Sources of Assurance

In addition to the opinion provided through the work of the Internal Audit Service, the council can also draw upon external sources of assurance such as the outcomes of the LGA Peer Review

Challenge and assessments provided by organisations such as Ofsted and the Care Quality Commission.

In preparation for a forthcoming Ofsted inspection a rigorous self-assessment has been undertaken benchmarked against the Ofsted Inspection Framework and there have been detailed inspections of children's social care in the two busiest offices, Preston and Burnley. Children's Centre performance is judged independently by Ofsted with currently 92% rated as good or outstanding and none judged as inadequate and 89% of children's homes judged as good or outstanding. Data published by Ofsted in April 2015 relating to school inspections show 87% of primary schools being rated as good or outstanding with only 2% judged as inadequate and 77% of secondary schools judged as good or outstanding and 10% judged as inadequate.

The Lancashire Safeguarding Children Board (LSCB) also plays a critical role in ensuring that vulnerable children are protected and as well as routinely monitoring performance data it participates in multi-agency safeguarding practice inspections and peer reviews. Multi-agency audits of early help services have been undertaken which included Lancashire County Council Children's Centres and the LSCB has been supported in relation to their diagnostic regarding child sexual exploitation.

As an independent regulator the Care Quality Commission (CQC) visit hospitals, care home and home care services at least once a year as part of their programme to inspect health and social care systems in England and performance against national standards with a new CQC inspection regime coming into force from October 2014. Since the introduction new regime two short breaks services and two domiciliary services have been inspected and rated as "good". The picture is however more mixed in relation to residential care homes for older people, with four of the seven homes inspected being rated overall as "good" but three rated as "requiring improvement".

In relation to other internal sources of assurance, strategic performance is monitored and reported to Management Team and the Cabinet Committee on Performance Improvement (CCPI). Quarterly reports are produced for each service and form the basis on which corporate performance is reported, first by Management Team and then CCPI. Directors and cabinet members are held to account regarding performance against the quality of service reports with the leader, deputy leader and chief executive.

A quarterly performance report is presented to CCPI along with recovery plans for any under-performing measures along with other performance/progress reports relating to particular services or projects. Current performance across quarterly KPIs monitored in the quality of service reports has regularly been over 75% meeting target or improving. Risks and issues are flagged and detailed in the quality of service reports and associated risk management arrangements reviewed and monitored.

The council’s Governance Framework

The council's Governance Framework comprises many systems and processes. The following identifies key elements of the Governance Framework and the council's arrangements for fulfilling them:

Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users

Following on from the elections in 2013, a minority Labour Administration was formed with support from the Liberal Democrat group through an informal agreement between the two parties. Given that the new Administration was formed part way through a 3-year financial cycle, the Cabinet wanted to take stock and fully understand the challenges they faced. Therefore, rather than develop a new corporate strategy at that time, Cabinet agreed a new strategic document that set out the direction of travel they wanted to take. The document outlined the initial priorities for the coming year with a view to developing a future corporate strategy that articulates a new service offer to be delivered by a new-look organisation.

The direction of travel agreed acknowledged the challenging financial environment in which the council was operating and highlighted the importance of partnership working to support Lancashire communities, reduce duplication and secure value for money. The Administration signalled their intent to adopt a can-do approach and the need for doing things differently for less.

The council agreed three cross-cutting priorities:

- to prepare for the future;
- to support the most vulnerable; and
- to boost the Lancashire economy, both creating and protecting jobs.

These priorities have now been published on the council's website. Since then work to develop the corporate strategy has been on-going which will reflect both the changing external environment and the priorities set by the Administration.

Underpinned by the Marmot principles, the Corporate Strategy will set out:

- the council's core purpose and vision;
- the political priorities of the Administration;
- the council's strategic priorities and the allocation of resources to them;
- services that the council is committed to and service standards
- the plans for how services will be delivered
- how the strategy will be financed

Responsibility for developing the new Corporate Strategy sits with the director of commissioning and a revised timetable has been agreed that will see the new Corporate Strategy agreed in October.

Reviewing the council's vision and its implications for the council's governance arrangements

To measure the effectiveness and delivery of the council's ambitions, the council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the chief Executive and directors. The council's Management Team is currently working to embed more effective performance measures across a wide range of its services.

The council engages with the communities of Lancashire in a number of ways:

- High profile communication campaigns to encourage communities to take up our services or help change behaviours;
- Use of traditional and new media channels to keep residents informed of our activities;
- Encouraging elected members to use social media;
- Webcasting of council and committee meetings;
- Member representation on neighbourhood management boards across Lancashire;
- Using our residents' panel Living in Lancashire to inform priorities and measure service experience;
- Talking regularly with service users and communities to understand their service needs; and
- Consulting on changes we are planning to make.

Translating the vision into objectives for the council and its partnerships

As part of developing the new Corporate Strategy the council's vision will be underpinned by a set of objectives that will be clearly articulated to both partners and the Lancashire public. A new set of performance measures will also be adopted so that progress against the objectives can be monitored and appropriately managed.

During 2014/15 the council's current priorities have been published on the council's website pending the development of a new Corporate Strategy. To that end Management Team has been working throughout the latter part of 2014/15 to develop the council's vision and values.

Measuring the quality of services for users, ensuring that they are delivered in accordance with the council's objectives and for ensuring that they represent the best use of resources and value for money

- Using our residents' panel *"Living in Lancashire"* to inform priorities and measure service experience;
- Talking regularly with service users and communities to understand their service needs; and
- Consulting on changes we are planning to make

Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the council and partnership arrangements

Decision-making and conduct

The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the leader and deputy leader of the council. The responsibilities of the individual cabinet members are outlined in the council's constitution. In 2014/15, a full review of the council's decision making arrangements was undertaken via a member/officer working group, reporting to Full Council. Detailed alternative options for a committee system and a "hybrid" system were drafted, and the outcome of the review was to maintain the current Cabinet model. The working group continues to meet at the request of Full Council to consider some aspects of the decision making arrangements, such as Full Council procedures and the roles of some committees.

The Scheme of Delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation has been reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers heads of service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or cabinet members or committees.

The council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the council, the executive and committees. New software has been embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the council's constitution.

Scrutiny

The council has four scrutiny committees.

- The Scrutiny Committee, whose responsibilities include the council's crime and disorder and flood risk management scrutiny responsibilities.
- The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally.
- The Education Scrutiny Committee scrutinises any issues around education.
- Since May 2013 the council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and cabinet members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

Partnership arrangements

The council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.

The review, development and implementation of a single commissioning framework for Domestic Abuse is an example of how the council has led partners in delivering a model of provision, consistent across Lancashire and using pooled resources, to provide support for victims and perpetrators of domestic abuse.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

The Code of Conduct for Elected Members and the terms of reference of some of the council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.

The council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The council also has a protocol for councillor/officer relations.

Reviewing the effectiveness of the council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality

The council agreed to revise its Scheme of Delegation in May 2012 bringing in those changes with the new structure from April 2015. The intention behind the changes is to remove bureaucracy and to ensure that decisions are made at the appropriate level in the organisation.

The council undertook a major review of partnerships in 2013/14, resulting in significantly streamlined arrangements and improved coherence and integration across some of the key strategic partnerships. For example, local structures around the Children's Trust and the Safeguarding Children Board have been brought together, replacing 12 District Children's Trust Boards and 3 Locality Safeguarding Groups with 5 new Children's Partnership Boards established. A number of other partnership bodies were also disestablished or substantially revised and this has reduced the number of strategic multi agency meetings by approximately 300 a year.

A key feature of the partnership review is an ongoing commitment to continual evaluation of partnership structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.

The recent Peer Review Challenge commented that there is positive recognition from a number of partner agencies of the efforts the council's leadership is making in strengthening external relationships. There are a number of examples where the council is working with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.

The council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements. The council follows good practice guidance issued by the Information Commissioners Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the council's

Information Governance mandatory training course for all staff and Information Governance awareness sessions for heads of service.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

As noted at paragraph 4.5, whilst risk management happens "in practice", the need to embed a systematic approach to managing risk and opportunities is clear and that process is in hand. The arrangements will include the creation of an effective risk and opportunity register owned by Management Team with regular updates provided to members, including the Audit and Governance Committee.

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.

The council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

Ensuring effective management of change and transformation

High level milestones for the council's Transformation Programme were set out by Management Team in November 2013. A project team was established to manage delivery of Phase 1, with Management Team acting as Programme Board, providing leadership and oversight of significant issues and risks. Delivery has focussed around five key interrelated themes: Culture, behaviours and leadership; Developing the service offer; Restructure; Systems and processes; Skills development.

Employee and Trade Union consultation has helped to shape future structure and the agreed principles for appointment to the structure. Decision making in respect of the new structure for posts at Grade 11 and above, and the county council's future service offer, has been supported by Equality Analysis where appropriate.

Ensuring the council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)

The council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010). The council's Section 151 Officer (the former county treasurer) left her employment with the council towards the end of 2014/15 and Full Council has appointed an interim Section 151 Officer who operates in accordance with the relevant statutory and professional guidance.

The county council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the county council to significantly reduce the level of its annual revenue expenditure. The council's financial planning and management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

Ensuring the council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

The council's Internal Audit Service operates in accordance with professional standards and is a key element of the corporate governance framework. However, going forward Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the council's size and the current arrangements are therefore to be the subject of a fundamental review. See also section 6 below.

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The council's former county secretary and solicitor, who was also the council's monitoring officer, left his employment with the council during 2014/15 and his deputy was redeployed into the post and appointed to the monitoring officer role. The monitoring officer (the director of governance, finance and public services) has in turn appointed a deputy monitoring officer (the director of legal and democratic services).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The council has appointed the chief executive as head of the paid service.

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The committee's role is to provide independent oversight of the adequacy of the council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.

Whilst training for committee members has taken place in the past, it has been recognised that this should now be refreshed and arrangements for this are in hand preceded by a self-assessment exercise.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Whistleblowing and for receiving and investigating complaints from the public

The council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee.

The council has robust arrangements for processing all complaints, including those made under statutory social care procedures. These arrangements were revised during 2014/15, bringing together the adults' and children's social care complaints systems under a single management structure. A new customer feedback system was implemented in October 2014 being utilised by the former ASHW and CYP directorates as a single repository to facilitate the strategic overview of complaints.

The adequacy and effectiveness of the complaints procedures have recently been the subject of a detailed internal audit review which resulted in substantial assurance being given. Under the council's new operating structure further consolidation means that all complaints procedures, including corporate complaints, will be under a single management structure within Democratic Services.

Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15.

A comprehensive range of learning and development opportunities have been provided during including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the council's Transformation process.

All senior officers appointed to the new organisation structure will participate in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The council uses a number of main channels to communicate with the community and other stakeholders including:

- The website www.lancashire.gov.uk, which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter

- A variety of public information leaflets and other literature distributed to public places across the county

Enhancing the accountability for service delivery and effectiveness of other public service providers

Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to consider processes for complaints against care providers across all sectors. The council also hosts the statutory "Healthwatch" organisation.

The council has strong relationships with district and parish councils, and works collaboratively with them.

Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the council's overall governance arrangements

The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

County council scrutiny committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

Internal control

Having given a strong commitment to ensure that basic controls are maintained, particularly those highlighted by the Chief Internal Auditor's report for 2013/14, it is pleasing that virtually all the outstanding actions which formed part of the Audit Plan for 2014/15 which were areas of high and moderate risk have now achieved a substantial assurance assessment in the current Chief Internal Auditor's report for the year ending 31 March 2015.

However, it is clear that 2015/16 will be a year of significant challenges for the council with the need to embed a new operating structure, often with new heads of service in post, some of whom may be unfamiliar with either their new role or the "new" service. Clearly the risks around transformation will form part of a new corporate risk and opportunity register and appropriate mitigation measures will be in place.

One of the mitigation measures proposed, which also reflects the fact that the current capacity for Internal Audit is currently limited pending a review of the Internal Audit Service, is to agree that for 2015/16 the focus of Internal Audit will be limited to consideration of the key financial systems and that the focus will be to provide consultancy (without any corresponding audit opinion) to heads of service to identify key controls -

either those which currently exist or new controls to be proposed – around new services/structures. As a consequence it is not proposed that Internal Audit will provide an overall assurance opinion over internal controls for 2015/16.

Once this piece of work is complete the results will be used to inform an action plan for implementation and, once implemented, the controls can be the subject of internal audit and an assurance opinion.

Key issues

Going forward, along with the council's main financial controls, the key strategic risks and opportunities will be identified through the process described above. Even at this stage some of those risks are apparent, including the ongoing Transformation Programme and the embedding of systems around debt management as well as the risk management process itself. The proposed consultancy role for Internal Audit will also assist in that process.

Review of effectiveness and a programme of improvement

The LGA Peer Review Challenge has provided the council with a useful, independent view on its governance framework, identifying what works well and where there are areas for improvement.

To ensure that continuous improvement takes place Management Team will continue to work with both the Administration and the committee to ensure that both the governance issues identified and set out above and those which emerge from the process of embedding a risk management culture, supported by a risk and opportunity register, are identified and mitigated.

The production of a Local Code of Corporate Governance is intended to underpin the council's vision with mechanisms for control and the management of risk. The council's new Corporate Strategy is of course central to that and it is intended that this will be in place by October 2015.

Signed:

Jennifer Mein	Jo Turton
Leader of Lancashire County Council	Chief Executive of Lancashire County Council
Date 28th September 2015	Date 28th September 2015

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The surplus or deficit on provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting.

The Net Increase/Decrease before transfers to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2014/15

	County Fund £m	Earmarked Revenue Reserves £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance as at 1st April 2014	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**
Movement in Reserves During 2014/15								
(Surplus) or deficit on provision of services	(48.6)	-	-	-	-	(48.6)	-	(48.6)
Other Comprehensive Income and Expenditure	-	-	-	-	5.1	5.1	260.6	265.7
Total Comprehensive Income and Expenditure	**(48.6)**	**-**	**-**	**-**	**5.1**	**(43.5)**	**260.6**	**217.1**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(30.2)	-	-	(1.7)	(1.4)	(33.3)	33.3	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(78.8)**	**-**	**-**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Transfers (to)/from Earmarked Reserves (note 7)	78.8	(79.5)	0.7	-	-	-	-	-
(Increase)/Decrease in Year	**-**	**(79.5)**	**0.7**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Balance as at 31st March 2015 carried forward	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**

2013/14

	County Fund £m	Earmarked Revenue Reserves[1] £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance as at 1st April 2013	**(36.0)**	**(258.5)**	**(43.7)**	**(26.6)**	**(92.1)**	**(456.9)**	**(406.8)**	**(863.7)**
Movement in Reserves During 2013/14								
(Surplus) or deficit on provision of services	19.9	-	-	-	-	19.9	-	19.9
Other Comprehensive Income and Expenditure	-	-	-	-	4.4	4.4	(263.8)	(259.4)
Total Comprehensive Income and Expenditure	**19.9**	**-**	**-**	**-**	**4.4**	**24.3**	**(263.8)**	**(239.5)**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(27.5)	-	-	(4.7)	39.9	7.7	(7.7)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(7.6)**	**-**	**-**	**(4.7)**	**44.3**	**32.0**	**(271.5)**	**(239.5)**
Transfers (to)/from Earmarked Reserves (note 7)	7.6	(38.1)	30.5	-	-	-	-	-
(Increase)/Decrease in Year	**-**	**(38.1)**	**30.5**	**(4.7)**	**44.3**	**32.0**	**(271.5)**	**(239.5)**
Balance as at 31st March 2014 carried forward	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**

[1]Restated comparative year to include reserves of services which were previously traded services

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in year of providing services in accordance with generally accepted practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from accounting costs. The taxation position is shown in the Movement in Reserves Statement.

	2014/15			2013/14[1&2]		
	Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
	£m	£m	£m	£m	£m	£m
Cultural and Related Services	27.0	(3.7)	23.3	28.3	(4.3)	24.0
Environmental and Regulatory Services	211.3	(36.4)	174.9	99.9	(23.6)	76.3
Planning Services	26.5	(18.5)	8.0	18.8	(3.0)	15.8
Children's and Education Services[1]	963.6	(942.8)	20.8	972.3	(926.2)	46.1
Children's Social Care[1]	172.5	(12.8)	159.7	181.7	(9.7)	172.0
Highways and Transport Services	114.1	(27.5)	86.6	140.6	(40.7)	99.9
Adult Social Care	444.1	(114.9)	329.2	459.5	(108.5)	351.0
Public Health	52.9	(56.2)	(3.3)	57.8	(59.8)	(2.0)
Central Services	7.9	(5.7)	2.2	9.1	(5.2)	3.9
Corporate and Democratic core	12.9	(22.9)	(10.0)	14.2	(10.6)	3.6
Non Distributed Costs[2]	117.2	(37.2)	80.0	87.8	(70.9)	16.9
Travellers' Sites	0.2	-	0.2	0.2	-	0.2
Total Cost of Services (note 12)	**2,150.2**	**(1,278.6)**	**871.6**	**2,070.2**	**(1,262.5)**	**807.7**
Other Operating Income and Expenditure (note 9)	7.1	(13.4)	(6.3)	36.8	(4.7)	32.1

	2014/15			2013/14[1&2]		
	Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
	£m	£m	£m	£m	£m	£m
Financing and Investment Income & Expenditure (note 10)	106.0	(82.4)	23.6	119.5	(28.9)	90.6
Taxation and Non Specific Grants Income (note 11)	-	(937.5)	(937.5)	-	(910.5)	(910.5)
(Surplus) or Deficit on Provision of Services	**2,263.3**	**(2,311.9)**	**(48.6)**	**2,226.5**	**(2,206.6)**	**19.9**
Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services						
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets (note 32)			(20.5)			(14.7)
Re-measurements of the net defined benefit liability/(asset) (note 32)			301.9			(273.8)
Other Adjustments			5.1			2.8
Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services						
(Surplus)or deficit on revaluation of available for sale assets (note 32)			(20.8)			26.3
Other Comprehensive Income and Expenditure			**265.7**			**(259.4)**
Total Comprehensive Income and Expenditure			**217.1**			**(239.5)**

[1]Comparatives have been restated to reflect the 2014/15 SERCOP changes in relation to the movement of children's 'centres, targeted services for young people and universal services for young people; moving from Children's and Education Services to Children's Social Care. Whilst these changes result in movements across services they do not affect the 'Total Cost of Services'.

[2]Comparatives have been restated since the presentation of the of the Education Services Grant has changed to reflect the nonspecific nature of the grant

Balance Sheet

The balance sheet shows the value as at 31st March of assets and liabilities recognised by the county council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Reserves are reported in two categories. The first category of reserves are usable reserves (i.e. those reserves that the county council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use). An example of this is the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt.

The second category of reserves is those that the council is not able to use to provide services (unusable reserves). This category of reserves includes reserves that hold unrealised gains and losses, for example the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Balance Sheet	Notes	31/03/15 £m	31/03/14 £m
Property Plant and Equipment	21	2,638.2	2,640.0
Heritage Assets	22	28.7	28.4
Investment Property		2.8	2.7
Intangible Assets		21.7	23.2
Assets Held for Sale		-	0.1
Long Term Investment	23	262.2	487.9
Long Term Debtors	33	74.2	41.1
Long Term Assets		**3,027.8**	**3,223.4**
Short Term Investments	23	267.8	24.7
Inventories		3.0	3.1
Short term Debtors	27	135.8	109.9
Payments in Advance		12.3	16.0
Cash and Cash Equivalents	29	130.3	91.4
Assets Held for Sale		5.2	9.3
Current Assets		**554.4**	**254.4**
Short Term Borrowing	23	(574.2)	(384.0)
Short Term Creditors	28	(204.5)	(211.1)
Receipts in Advance		(7.3)	(8.3)
Short Term Provisions	30	(18.0)	(8.1)
Other Current Liabilities	23	(4.6)	(7.5)
Current Liabilities		**(808.6)**	**(619.0)**
Long Term Provisions	30	(13.8)	(18.8)
Long term Borrowing	23	(467.6)	(436.1)
Other Long Term Liabilities	23[1], 41	(1,406.1)	(1,300.7)
Long Term Liabilities		**(1,887.5)**	**(1,755.6)**
Net Assets		**886.1**	**1,103.2**
Usable Reserves		(501.7)	(424.9)
Unusable Reserves	32	(384.4)	(678.3)
Total Reserves		**(886.1)**	**(1,103.2)**

[1] Note 23 only includes financial liabilities that meet the definition of a financial instrument

Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the council during the reporting period.

	Notes	2014/15 £m	2013/14 £m
Net (surplus) or deficit on the provision of services	35	(48.6)	19.9
Adjustment to surplus or deficit on the provision of services for non-cash movements	35	(183.5)	(178.3)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	237.2	103.6
Net Cash flows from Operating activities	35	**5.1**	**(54.8)**
Net Cash flows from Investing Activities	36	(58.9)	93.9
Net Cash flows from Financing Activities	37	14.9	(64.9)
Net increase or decrease in cash and cash equivalents		**(38.9)**	**(25.8)**
Cash and cash equivalents at the beginning of the reporting period		(91.4)	(65.6)
Cash and cash equivalents at the end of the reporting period	29	**(130.3)**	**(91.4)**

Abigail Leech ACA

Acting Section 151 Officer

28th September 2015

County Councillor Terry Brown

Chair of the Audit and Governance Committee

28th September 2015

Notes to the financial statements

1. Accounting policies

- **General**

  The Statement of Accounts summarises the council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

  The balance sheet does not include the balances of the Lancashire County Pension Fund and several small trust funds, which are presented in separate statements. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at particular schools, colleges, homes or in specific areas.

- **Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors**

  Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

  Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

- **Accruals of income and expenditure**

  Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

  - Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
  - Revenue relating to such things as council tax, general rates etc. shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
  - Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
  - Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- **Cash and cash equivalents**

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

  In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

- **Charges to revenue for non-current assets**

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

  - Depreciation attributable to the assets used by the relevant service.
  - Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
  - Amortisation of intangible assets attributable to the service.

  The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance.

  Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund balance (minimum revenue provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

- **Employee benefits**

  - **Employee benefits payable during employment**

    Short-term employee benefits are those due to be settled within 12 months of the year end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

    The accrual is charged to the surplus or deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

- **Termination benefits**

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

  Where termination benefits involve the enhancement of pensions, statutory provisions require the County Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

- **Post-employment benefits** - Pension arrangements

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

  - The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);

  - The Local Government Pension Scheme, administered by Lancashire County Council; and

  - The NHS Pension Scheme administered by NHS Business Services Authority on behalf of The Secretary of State for Health.

  All these schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

  The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council.

  The teachers' scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

  Lancashire County Pension Fund

  The Lancashire County Pension Fund is accounted for as a defined benefits scheme:

  - Lancashire County Council paid an employer's contribution of 12.6% for non-school employees and 20% for schools employees during 2014/15; plus a separate contribution of £15.4m towards the pension fund deficit.
  - The liabilities of the Lancashire County Pension Fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projected earnings for current employees).
  - Liabilities are discounted to their value at current prices, using a discount rate of 4.5%. This was based on a weighted average of "spot yields" on AA rated corporate bonds.

- The assets of the Local Government Pension Fund attributable to the council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price;
  - Unquoted securities – professional estimate;
  - Unitised securities – current bid price, and
  - Property – market value.

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

- **Current service cost**
  This represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is now included within the CIES in cost of services;

- **Past service and curtailments costs**
  These are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- **Administrative expenses**
  These are the costs of running the fund, attributable to the employer, and does not include any investment management expenses which are allowed for under "Re-measurements". These costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- **Net interest on the net defined benefit liability (asset)**
  Net interest expense for LGPS is the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Re-measurements (assets)**
  These are set out in IAS19 as being the return on assets net of interest on assets. This is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19 assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not

explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "Experience gain/loss on assets";

- **Re-measurements (liabilities)**
  These are subdivided into:

  Gain/loss on financial assumptions and gain/loss on demographic assumptions
  Under the accounting standards the assumptions will normally differ between the start and end of the employer's financial year. Changes in actuarial assumptions show the effect of this difference, calculated at the end of the financial year;

  Experience gains/losses on liabilities
  As mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "Experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

  In relation to retirement benefits, statutory provisions require the County Fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the County Fund of being required to account for retirement benefits on the basis of cash flows rather than when the benefits are earned by employees.

  Discretionary benefits

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

- **Events after the reporting period**

  Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

  - Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.
  - Those that are indicative of conditions that arose after the reporting period. The Statement of Accounts are not adjusted to reflect such events but where a category of events would have a material effect, disclosure is made in the notes to the nature of the events and their estimated financial effect.

  Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

- **Financial liabilities**

  Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

  For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

  Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

  However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan.

  Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

- **Financial assets**

  Financial assets are classified into three types:

  - Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.
  - Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. This includes, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.
  - Fair value through profit and loss – this classification is for assets which are held primarily for trading or have a recent history of being traded.

  - **Loans and receivables**

    Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

    For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains or losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **Available-for-sale assets**

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the assets have fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the sale or bid market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis and;
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed and determinable payments) or, fair value falls below cost (for equity instruments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

- **Fair value through profit and loss**

  Fair value through profit and loss assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially and subsequently measured and carried at fair value. Investments are accounted for under this category if they are either:

  - Acquired principally for the purpose of selling in the near term, or
  - Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

  Any gains or losses that arise on the de-recognition of the assets are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Any unrealised gains and losses are also credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.

- **Government grants and contributions**

  Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

  - The council will comply with the conditions attached to the payments, and
  - The grants or contributions will be received.

  Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

  Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

  Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

  Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County Fund balance in the Movement in Reserves Statement.

  Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

- **Heritage Assets**

  The CIPFA Code of Practice defines Heritage Assets as any asset that is held as a contribution to knowledge or culture. The council has a number of assets which are held and maintained principally for their contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage Assets. These assets have been valued at fair value in accordance with the policy on Property, Plant and Equipment. Any acquisitions have initially been valued at cost if purchased or at a valuation if donated.

  The collection has indeterminate life and is subject to appropriate conservation measures, therefore depreciation is not charged on Heritage Assets.

  The county council has a detailed acquisitions and disposal policy, further information on which can be obtained from the county council. In broad terms any acquisition by the county council must relate to the County Palatine of Lancaster. Consideration is also given to the ability of the county council to ensure the long term care of the acquisition and that the acquisition does not conflict with the acquisitions policy of other museums in the region.

  With respect to disposals it is considered that the collection has a long term purpose and therefore there is a strong presumption against disposal. Disposals will not be made with the principal aim of generating funds.

- **Long term contracts**

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

- **Overheads and support services**

  The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP).

  The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

  - Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation.
  - Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

  These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

- **Leases**

  Leases are classified as either finance or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. The decision depends on the substance of the transaction rather than the contract. Leases are classed as finance leases where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance lease debtors are recognised in the balance sheet on commencement at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

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

- **Property, Plant and Equipment**

Physical assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefit(s) accruing from the expenditure is for more than one year. This expenditure is accounted for on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

- **Measurement**

For assets that are purchased, they are initially recognised at cost. The cost comprises of:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be operational.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the council will initially be recognised at cost. Only costs that can be directly attributable to bringing the asset into operation will be capitalised.

The council does not capitalise borrowing costs incurred whilst assets are under construction.

Alternative ways of acquiring assets are either via an exchange or an asset being donated. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the County Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.

Certain community assets which were acquired years ago are included at a notional amount of £1.

All other assets – fair value, determined as the amount that would be paid for the asset in its existing use value.

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In such circumstances the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

- **Impairment**

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

- **Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer. Where there is a change in the value or asset life, this is taken into account in calculating the depreciation charge immediately.
- Vehicles, plant, furniture and equipment – on a straight line generally over 10 years unless it is considered the life of the asset is less than 10 years.
- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

- **Disposals and non-current assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the County Fund balance in the Movement in Reserves Statement.

- **Private Finance Initiatives (PFI)**

PFI contracts are agreements to receive services, where responsibility for making available the Property Plant and Equipment needed to provide services passes to the PFI contractor. As the council is deemed to control the services that are provided under our PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment. For the Building Schools for the Future (BSF) Schemes the liability was written down by capital contributions of £10.5m and £1.6m.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge which varies for each scheme but lies in the range of 8.0% to 11.2% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

- **Recognition of assets and liabilities**

Properties used in the PFI schemes are now recognised as Property, Plant and Equipment of the council. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use.

Separate assets are recognised in respect of land and buildings where appropriate. The related liability is initially measured at the value of the related asset and subsequently calculated using the same method used for finance leases.

Once on the balance sheet the PFI assets will be treated in the same way as all other non-current assets of the same type including depreciation, impairment and revaluation.

- **Prepayments**

Where the PFI contract requires payments to be made as a lump sum contribution before the related property is recognised as an asset on the balance sheet, such payments are recognised as prepayments. At the point that the property is recognised as an asset, the related liability is also recognised. The prepayment is then applied to reduce the outstanding liability.

- **Minimum Revenue Provision (MRP)**

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. MRP is calculated in accordance with the appropriate regulations and statutory guidance, and is equal to that element of the unitary charge which is applied to repay the outstanding liability.

- **Development costs**

The council's internal and external development costs associated with the procurement of PFI projects are charged to revenue as they are incurred.

- **Deductions from the unitary payment**

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.

Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- A reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient and;
- A reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the council's entitlement has been established and it is probable that the council will be able to make the deduction.

- **Provisions**

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

- **Contingent liabilities**

  A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

  Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts (see note 40).

- **Reserves**

  The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the County Fund balance in the Movement in Reserves Statement.

  When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

  Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the council. These reserves are explained in the relevant policies.

- **Revenue expenditure funded from capital under statute**

  Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

  Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the County Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

- **Value Added Tax (VAT)**

  VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

- **Collection Fund agency arrangements**

  Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NDR). The fund's key features relevant to accounting for council tax and NDR in core financial statements are:

  - In its capacity as a billing authority a council acts as an agent. It collects and distributes council tax income on behalf of the major preceptors and itself.
  - While the council tax income for the year credited to the billing authority's Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the County Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their County Fund).

Lancashire County Council is a major preceptor with 12 districts.

From the year commencing 1 April 2009, for both billing authorities and major preceptors the council tax income included in the Comprehensive Income and Expenditure Statement for the year is required to be the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the County Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the County Fund Balance to ensure that there is no impact from this change on the taxpayer.

Since the collection of council tax is, in substance, an agency arrangement, the cash collected by the billing authorities from council taxpayers belongs proportionately to the billing authority and the major preceptors (e.g. Lancashire County Council).

There will therefore be a debtor/creditor position between the billing authorities and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

In addition, the balance sheet of both billing and precepting authorities will include:

- An attributable share of council tax debtors, net of impairment allowances for doubtful debts;
- An attributable share of creditors for overpaid council tax and;
- a debtor for the billing authorities for cash collected from council tax payers but not paid across or, a creditor for cash paid in advance from council tax payers.

- **Property, Plant and Equipment not owned by the council**

  Some voluntary aided and controlled schools are owned by trustees. However these schools are included in our Property, Plant and Equipment. This is because we receive the benefit from using the properties in terms of delivery of services and also meet their costs of service provision. The recognition of school assets within the LCC balance sheet is a critical judgement which is discussed in more detail in note 2

2. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out in note 1. In applying the accounting policies, the council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The county council is deemed to control the services provided under the Private Finance Initiative (PFI) agreement for 12 schools, one library and a faith centre and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as Property, Plant and Equipment on the council's balance sheet. The buildings have been valued at £239.7m as at 31 March 2015 (£242.2m as at 31 March 2014*).

  *Prior year comparative restated to include school assets only; because the waste treatment facilities have been re-financed and are no longer part of a PFI agreement.

These judgements are made on the professional opinion of the council's accountants, valuers and procurement managers based on contract procedure rules and the strict criteria set out in International Accounting Standard 17 (IAS 17) relating to leases. In addition the International Financial Reporting Interpretations Committees 4 and 12 (IFRIC 4 and IFRIC 12) contain specific criteria relating to whether contractual arrangements have the substance of a lease. The relevant accounting policy has been applied based on the outcome of the assessment.

- The council has to determine whether there is a group relationship between the council and other entities. The relationship that exists between the council and other entities has been assessed in accordance with the accounting standards and the finance guidance provided by CIPFA. The council's relationships with other entities can be found in note 39. The 2014/15 accounts do not include a set of group accounts for the following reasons:
    - The omission of Group Accounts will not affect the ability of a user of the accounts to determine the financial position and performance of the County Council, or its exposure to risk.
    - There is low level of financial risk to the council from its involvement with group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1. There is a very low level of involvement from group members in delivering the council's statutory or significant core services. Where there is more involvement in core activities then the council funds the entity and as a result the costs are already included in the accounts of LCC.
    - Local Authority maintained schools, in line with relevant accounting standards and the Code are considered to be separate entities with the balance of control lying with the council. The council has substantive control over the use of school assets and a statutory duty to provide education. There are not considered to be any significant restrictions on the ability to access or use these assets.

- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the council's Balance Sheet. The valuations are undertaken by in-house qualified staff that follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2015. After consideration no requirement had arisen in 2014/15.

- The property, plant and equipment balance includes properties valued at some £687m which are not owned by the council. These are principally voluntary aided (VA), voluntary controlled (VC) and foundation schools which form approximately 50% of schools in Lancashire. Historically it has been LCC policy to include foundation, community, VA and VC schools assets on the balance sheet in line with accounting guidance and the CIPFA code of practice. In Lancashire there are a significant number of school buildings for which trustees have legal ownership rights but LCC benefit from using these properties in terms of delivery of service and LCC also meet the costs of service provision. The council has considered *Appendix E 'Accounting for schools in local authorities in England and Wales' to the 2014/15 Code update* and has concluded that the changes do not impact on the existing accounting treatment for schools. They are consequently retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

3. Accounting standards that have been issued but have not yet been adopted

The amendments that have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2015 but not yet adopted by the Code, have been considered and will not have a material impact on the 2014/15 accounts.

4. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the council's balance sheet at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pensions Liability**
  - Uncertainties:

  Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the council with expert advice about the assumptions to be applied.

  (see note 41)

  - Effect if actual results differ from assumptions:

  The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £307.0m. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £156m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £67.0m.

- **Property, Plant and Equipment (PPE)**
  - Uncertainties:

  The value of the PPE is dependent upon professional judgement based on information available at the time of valuation. Due to changes in Economic conditions, a valuation taken on a different date could potentially result in a different valuation.

  (see note 21)

  - Effect if actual results differ from assumptions:

  The effect is impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE. However the overall valuation is considered to ensure that PPE is not materially misstated at 31 March 2015.

5. Minimum Revenue Provision

Our accounts must include a charge for the repayment of debt. This charge must be an appropriate amount of our adjusted capital financing requirements at the start of the year. For

2014/15 this charge is £30.2m[1] which is shown within the Movement in Reserves Statement (£27.6m[2] in 2013/14).

As shown in note 6 below, capital charges in the Comprehensive Income and Expenditure Statement (depreciation, impairment, amortisation and revenue expenditure funded from capital under statute) are reversed or cancelled out and replaced by this statutory charge.

In addition the PFI liability has been written down by £6.3m (£7.6m[2] in 2013/14).

[1] This includes £5.4m relating to the waste treatment facilities

[2] £3.1m in relation to the waste treatment facilities is included in the write down of the PFI liability in 2013/14.

Notes to the Movement in Reserves Statement

6. Adjustments between accounting basis & funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2014/15

	Usable Reserves £m			Unusable Reserves £m
	County Fund	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Unusable Reserves**
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation and impairment of non-current assets	(48.0)	-	-	48.0
-Revaluation losses on Property, Plant and Equipment (charged to surplus or deficit on the provision of services)	(128.9)	-	-	128.9
-Revaluation losses on Assets held for sale	0.1	-	-	(0.1)
Amortisation of intangible assets	(3.9)	-	-	3.9
-Revenue expenditure funded from capital under statute	(18.9)	-	-	18.9
-Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(6.0)	-	-	6.0
-Revenue Contribution to Finance Capital Expenditure	15.8	-	-	(15.8)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	30.2	-	-	(30.2)
-Statutory provision for the financing of capital investment (MRP PFI)	6.3	-	-	(6.3)
Adjustments involving the Capital Grants Unapplied Account:				

		Usable Reserves £m		Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
-Capital grants and contributions unapplied credited to CIES	26.7	-	(26.7)	-
-Application of grants to capital financing transferred to the Capital Adjustment Account	125.5	-	25.3	(150.8)
Adjustments involving the Capital Receipts Reserve:				
-Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	13.1	(1.7)	-	(11.4)
Adjustments involving the Financial Instruments Adjustment Account:				
-Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(21.1)	-	-	21.1
Adjustments involving the Pensions Reserve:				
-Employer's pensions contributions and direct payments to pensioners payable in the year	93.8	-	-	(93.8)
-Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(125.0)	-	-	125.0
Adjustments involving the Collection Fund Adjustment Account:				
-Amount by which council tax and NDR income credited to the CIES is different from council tax and NDR income calculated for the year in accordance with statutory requirements	3.6	-	-	(3.6)
Adjustment involving the Accumulated Absences Account				
-Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6.5	-	-	(6.5)
Total adjustments	**(30.2)**	**(1.7)**	**(1.4)**	**33.3**

2013/14

		Usable Reserves £m		Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation and impairment of non-current assets	(47.2)	-	-	47.2
-Revaluation losses on Property Plant and Equipment (charged to surplus or deficit on the provision of services)	(37.6)	-	-	37.6
-Revaluation losses on Assets held for sale	(0.8)	-	-	0.8
-Movements in the fair value of Investment Properties	(1.5)	-	-	1.5
- Amortisation of intangible assets	(2.8)	-	-	2.8
-Revenue expenditure funded from capital under statute	(8.7)	-	-	8.7
-Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(36.0)	-	-	36.0
-Revenue Contribution to Finance Capital Expenditure	16.4	-	-	(16.4)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	27.6	-	-	(27.6)
-Statutory provision for the financing of capital investment (MRP PFI)	7.6	-	-	(7.6)
Adjustments involving the Capital Grants Unapplied Account:				
-Capital grants and contributions unapplied credited to CIES	19.6	-	(19.6)	-
-Application of grants to capital financing transferred to the Capital Adjustment Account	78.6	-	59.5	(138.1)
Adjustments involving the Capital Receipts Reserve:				

	Usable Reserves £m			Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
-Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	4.7	(4.7)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
-Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustments involving the Pensions Reserve:				
-Employer's pensions contributions and direct payments to pensioners payable in the year	83.1	-	-	(83.1)
-Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(134.9)	-	-	134.9
Adjustments involving the Collection Fund Adjustment Account:				
-Amount by which council tax and NDR income credited to the CIES is different from council tax and NDR income calculated for the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustment involving the Accumulated Absences Account				
-Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.6)	-	-	0.6
Total adjustments	**(27.5)**	**(4.7)**	**39.9**	**(7.7)**

7. Transfers to and from earmarked reserves

Detailed below are the amounts set aside from the county fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet county fund expenditure in 2014/15.

	Opening Balance £m	Net contributions to and from reserves (use of reserves) £m	Transfers between reserves £m	Closing balance £m
Reserves held to meet spending pressures				
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(5.0)	**-**	**-**	**(5.0)**
Reserves held to deliver corporate priorities				
Strategic Investment Reserve	(26.8)	2.7	2.7	(21.4)
Modern Apprentices	(0.2)	-	0.2	-
Local Welfare Reserve	(1.8)	-	1.8	-
	(28.8)	**2.7**	**4.7**	**(21.4)**
Reserves held to deliver organisational change				
Downsizing Reserve	(99.2)	17.4	1.2	(80.6)
Risk Management Reserve	-	-	(82.0)	(82.0)
LAA PRG Monies – Lancashire	(3.9)	3.1	0.8	-
	(103.1)	**20.5**	**(80.0)**	**(162.6)**
Reserves held to pay for expenditure commitments				
Equal Pay Review Reserve	(0.4)	-	0.4	-
CC Election Reserve	(0.5)	(0.3)	-	(0.8)
Funding of Capital Projects	(13.2)	1.9	(1.2)	(12.5)
	(14.1)	**1.6**	**(0.8)**	**(13.3)**
School reserves				
Individual School Reserves	(55.9)	(0.8)	0.3	(56.4)
Other School Reserves	(31.2)	(2.0)	(0.3)	(33.5)
Centrally Managed Schools Maintenance Reserve	(4.2)	(1.9)	-	(6.1)
	(91.3)	**(4.7)**	**-**	**(96.0)**
Reserves held to meet service priorities (directorate reserves)				
Corporate Reserves	(0.6)	0.2	0.3	(0.1)
Directorate Reserves	(65.8)	(32.2)	8.9	(89.1)
Building Repairs & Maintenance Reserve	(1.1)	-	-	(1.1)
	(67.5)	**(32.0)**	**9.2**	**(90.3)**
Total Earmarked Revenue and Capital Reserves	**(309.8)**	**(11.9)**	**(66.9)**	**(388.6)**
Earmarked Capital Reserves	**(13.2)**	**1.9**	**(1.2)**	**(12.5)**
Earmarked Revenue Reserves	**(296.6)**	**(13.8)**	**(65.7)**	**(376.1)**

2013/14[1]

	Opening Balance £m	Net contributions to and from reserves (use of reserves) £m	Transfers between reserves £m	Closing balance £m
Reserves held to meet spending pressures				
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(5.0)	**-**	**-**	**(5.0)**
Reserves held to deliver corporate priorities				
Strategic Investment Reserve	(41.7)	5.0	9.9	(26.8)
Modern Apprentices	(0.2)	-	-	(0.2)
Local Welfare Reserve	-	(1.1)	(0.7)	(1.8)
	(41.9)	**3.9**	**9.2**	**(28.8)**
Reserves held to deliver organisational change				
Downsizing Reserve	(37.7)	(14.9)	(46.6)	(99.2)
Service Transformation Reserve	(9.2)	0.8	8.4	0.0
Voluntary Severance Reserve	(8.0)	6.8	1.2	0.0
LAA PRG Monies – Lancashire	(5.3)	-	1.4	(3.9)
	(60.2)	**(7.3)**	**(35.6)**	**(103.1)**
Reserves held to pay for expenditure commitments				
Equal Pay Review Reserve	(4.5)	2.9	1.2	(0.4)
CC Election Reserve	(1.4)	0.9	-	(0.5)
CLEO Revenue Reserve	(1.3)	1.3	-	0.0
Funding of Capital Projects	(43.7)	8.8	21.7	(13.2)
	(50.9)	**13.9**	**22.9**	**(14.1)**
School reserves				
Individual School Reserves	(51.5)	(4.5)	0.1	(55.9)
Other School Reserves	(29.0)	(7.4)	5.2	(31.2)
Centrally Managed Schools Maintenance Reserve	(3.5)	(0.7)	-	(4.2)
	(84.0)	**(12.6)**	**5.3**	**(91.3)**
Reserves held to meet service priorities (directorate reserves)				
Corporate Reserves	(0.1)	(0.5)	-	(0.6)
Directorate Reserves	(58.6)	(8.2)	1.0	(65.8)
Building Repairs & Maintenance Reserve	(1.5)	0.4	-	(1.1)
	(60.2)	**(8.3)**	**1.0**	**(67.5)**
Total Earmarked Revenue and Capital Reserves	**(302.2)**	**(10.4)**	**2.8**	**(309.8)**
Earmarked Capital Reserves	**(43.7)**	**8.8**	**21.7**	**(13.2)**
Earmarked Revenue Reserves	**(258.5)**	**(19.2)**	**(18.9)**	**(296.6)**

[1]Restated comparative year to include only earmarked reserves.

8. Revenue reserves

The county council's revenue reserves are described below:

Reserves held to meet spending pressures

- Business Rates Volatility Reserve:

This reserve is set aside to mitigate any adverse impact upon the council's funding due to volatility in the Business rates Retention Scheme.

Reserves held to deliver corporate priorities

- Strategic Investment Reserve:

The council agreed a programme of investment in areas including the provision of residential and respite care, economic development, Libraries regeneration, further development of Youth Zones, increasing employment opportunities and the development of apprenticeship programmes. The Strategic Investment Reserve will deliver the funding for this investment.

Reserves held to deliver organisational change

- Downsizing Reserve:

This reserve is set aside to support the county council as it continues to deliver its agreed savings in 2015/16 and develops its strategy to reduce costs over the following three years.

- Risk Management Reserve

This reserve was set up to record extra ordinary income such as the underspend on Capital Financing due to the sale of bonds, and one off resources available such as council tax surplus. This reserve is intended to help the council manage risks to funding and service delivery going forward.

Reserves held to pay for expenditure commitments

- Funding of capital projects:

This reserve comprise of revenue monies earmarked to support committed capital projects in the county council capital programme.

Schools' reserves

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

During 2014/15 no schools converted to academies, 292 Schools had an in year deficit and 312 schools operated an in year surplus. At the 31st March 2015, 25 schools had deficit balances.

Reserves held to meet service priorities (directorate reserves)

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

9. Other operating expenditure

	2014/15 £m	2013/14 £m
Levies for flood defences and inshore fisheries and	1.0	0.8

	2014/15 £m	2013/14 £m
conservation authorities		
(Gains)/losses on the disposal of non-current assets	(7.0)	31.3
Other operating income/expenditure	(0.3)	-
Total	**(6.3)**	**32.1**

10. Financing and investment income and expenditure

	2014/15 £m	2013/14 £m
Interest payable and similar charges	17.9	17.1
Interest payable on PFI unitary payments	26.2	46.6
Premium on early repayment of debt	24.3[1]	-
Net interest on the net defined benefit liability	37.6	44.8
Interest receivable and similar income	(82.4)[2]	(19.5)
Changes in fair value of investment properties	-	1.5
Gain/loss on trading Accounts[3]	-	0.1
Total	**23.6**	**90.6**

[1]This relates to the refinancing of Waste Treatment Facilities

[2] The sale of bonds has been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

[3] Lancashire County Commercial Group is no longer an arm's length trading organisation

11. Taxation and non-specific grants income

	2014/15 £m	2013/14 £m
Council Tax Income	(380.2)	(364.4)
Non Domestic Rates	(169.2)[1]	(165.5)

	2014/15 £m	2013/14 £m
Revenue Support Grant	(212.6)	(256.9)
Education Services Grant	(20.1)	(20.5)[2]
Other Non-Specific Grants	(3.2)	-
Council Tax Freeze Grant	-	(5.1)
Recognised Capital Grants and Contributions	(152.2)	(98.1)
Total	**(937.5)**	**(910.5)**

[1]Funding for Non-Domestic Rates includes £136.1m of top up grant (£133.7m in 2013/14).

[2]Comparatives have been restated since the presentation of the Education Services Grant has changed to reflect the non-specific nature of the grant

12. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by Service Reporting Code of Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements.

The income and expenditure of the council's principal directorates recorded in the budget reports for the year is as follows:

Directorate Income & Expenditure 2014/15	Adult, Social, Health & Wellbeing £m	Children & Young People £m	Environment £m	Other Directorates £m	Total £m
Fees, charges & other	(89.3)	(62.0)	(61.0)	(161.5)	(373.8)

Directorate Income & Expenditure 2014/15	Adult, Social, Health & Wellbeing £m	Children & Young People £m	Environment £m	Other Directorates £m	Total £m
service income					
Government grants	(53.2)	(910.2)	(10.0)	(131.2)	(1,104.6)
Total Income	**(142.5)**	**(972.2)**	**(71.0)**	**(292.7)**	**(1,478.4)**
Employee expenses	83.9	700.0	45.0	174.3	1,003.2
Other service expenses	386.1	439.5	194.8	236.4	1,256.8
Support service recharges	-	-	-		-
Total Expenditure	**470.0**	**1,139.5**	**239.8**	**410.7**	**2,260.0**
Net Expenditure	**327.5**	**167.3**	**168.8**	**118.0**	**781.6**

Reconciliation to net cost of services in Comprehensive Income and Expenditure Statement

2014/15	£m
Cost of Services in Service Analysis	**781.6**
Add amounts not reported to management	187.1
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(97.0)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**871.7**

Reconciliation to subjective analysis

2014/15	**Directorate Analysis**	**Amounts not reported to management for decision making**	**Amounts not included in the I&E**	**Cost of Services**	**Corporate Amounts**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fees, charges and other service income	(291.3)	-	-	**(291.3)**	(13.4)	**(304.7)**
Interest and investment income	(82.5)	-	82.5	**-**	(82.4)	**(82.4)**
Income from council tax	-	-	-	**-**	(378.2)	**(378.2)**
Government grants and contributions	(1,104.6)	-	117.4	**(987.2)**	(559.4)	**(1,546.6)**
Total Income	**(1,478.4)**	**-**	**199.9**	**(1,278.5)**	**(1,033.4)**	**(2,311.9)**
Employee expenses	1,003.2	(12.9)	-	**990.3**	-	**990.3**
Other operating expenses	1,187.3	-	(227.4)	**959.9**	-	**959.9**
Support service recharges	-	-	-	**-**	-	**-**
Depreciation, amortisation and impairment	-	200.0	-	**200.0**	-	**200.0**
Interest payments	68.4	-	(68.4)	**-**	68.4	**68.4**
Precepts, levies and net pension interest costs	1.0	-	(1.0)	**-**	38.7	**38.7**
Gains or losses on disposal of property, plant and equipment	-	-	-	**-**	6.0	**6.0**
Total Expenditure	**2,259.9**	**187.1**	**(296.8)**	**2,150.2**	**113.1**	**2,263.3**
Surplus or Deficit on the provision of services	**781.5**	**187.1**	**(96.9)**	**871.7**	**(920.3)**	**(48.6)**

Directorate Income & Expenditure 2013/14[1]	Adult, Social, Health & Wellbeing £m	Children & Young People £m	Environment £m	Other Directorates £m	Total £m
Fees, charges & other service income	(107.5)	(62.1)	(56.9)	(90.5)	(317.0)
Government grants	(83.5)	(876.1)	(14.7)	(45.4)	(1,019.7)
Total Income	**(191.0)**	**(938.2)**	**(71.6)**	**(135.9)**	**(1,336.7)**
Employee expenses	98.8	694.7	52.6	79.0	925.1
Other service expenses	426.6	354.9	213.1	151.6	1,146.2
Support service recharges	4.5	49.0	(42.8)	(22.1)	(11.4)
Total Expenditure	**529.9**	**1,098.6**	**222.9**	**208.5**	**2,059.9**
Net Expenditure	**338.9**	**160.4**	**151.3**	**72.6**	**723.2**

Reconciliation to net cost of services in Comprehensive Income and Expenditure Statement

2013/14	£m
Cost of Services in Service Analysis	**723.2**
Add Services not included in main analysis	**(8.8)**
Add amounts not reported to management	100.1
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(6.8)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**807.7**

Reconciliation to subjective analysis

2013/14	Directorate Analysis £m	Services & Support Services not in analysis £m	Amounts not reported to management for decision making £m	Amounts not included in the I&E £m	Cost of Services £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(317.0)	-	-	-	**(317.0)**	(14.1)	**(331.1)**
Interest and investment income	-	-	-	-	**-**	(19.5)	**(19.5)**
Income from council tax	-	-	-	-	**-**	(364.4)	**(364.4)**
Government grants and contributions	(1,019.7)	(17.3)	-	91.5	**(945.5)**	(546.1)	**(1,491.6)**
Total Income	**(1,336.7)**	**(17.3)**	**-**	**91.5**	**(1,262.5)**	**(944.1)**	**(2,206.6)**
Employee expenses	925.1	-	7.0	-	**932.1**		**932.1**
Other operating expenses	1,146.2	8.5	-	(98.3)	**1,056.4**	11.0	**1,067.4**
Support service recharges	(11.4)	-	-	-	**(11.4)**		**(11.4)**
Depreciation, amortisation and impairment	-	-	93.1	-	**93.1**	-	**93.1**
Interest payments	-	-	-	-	**-**	63.8	**63.8**
Precepts, levies and net pension interest costs	-	-	-	-	**-**	45.5	**45.5**
Gains or losses on disposal of property, plant and equipment	-	-	-	-	**-**	36.0	**36.0**
Total Expenditure	**2,059.9**	**8.5**	**100.1**	**(98.3)**	**2,070.2**	**156.3**	**2,226.5**
Surplus or Deficit on the provision of services	**723.2**	**(8.8)**	**100.1**	**(6.8)**	**807.7**	**(787.8)**	**19.9**

[1]Comparatives have been restated since the presentation of the Education Services Grant has changed to reflect the nonspecific nature of the grant

13. Grant income

The council credited the following grants to the Comprehensive Income and Expenditure Statement.

	2014/15 £m	2013/14[1] £m
Credited to Taxation and Non Specific Grant Income		
Capital Grants		
Department of Education	(26.0)	(24.4)
Department of Transport	(91.9)	(55.6)
Other Grants	(34.3)	(18.1)
Total Recognised Capital Grants	**(152.2)**	**(98.1)**
Credited to Services - All Services		
Department of Education	(870.6)	(834.3)
Department of Health	(60.9)	(59.2)
Other - Central Government Departments	(27.4)	(31.7)
Other Grants	(1.1)	(0.5)
Contributions	(27.2)	(19.8)
Total Grants credited to services	**(987.2)**	**(945.5)**

[1]Comparatives have been restated since the presentation of the Education Services Grant has changed to reflect the non-specific nature of the grant and, the Private Finance Initiative Special Grant has been re-classified.

The Department of Education figure includes the Dedicated Schools Grant of £762.9m (£754.1m in 2013/14), the Pupil Premium Grant of £46.4m (£34.4m in 2013/14) and the Private Finance Initiative Special Grant of £21.8m (£21.9m in 2013/14). The Department of Health figure includes the ring fenced Public Health Grant of £59.8m (£58.0m in 2013/14). Contributions include £23.2m from NHS England for Section 256 monies (£19.8m in 2013/14).

14. Dedicated Schools' Grant

Our spending on schools is funded by the Dedicated Schools' Grant (DSG), a grant provided by the Department for Education. DSG can only be used for spending which has been properly included in the schools budget.

This includes;

- parts of a restricted range of services which we provide across the county (central services);
- the individual budget, which is divided into a budget share for each school.

The following table shows how DSG was used for 2014/15:

	Capital Expenditure £m	Individual Schools' Budget £m	Total £m
Final DSG for 2014/15 before academy recoupment	-	-	(845.9)
Academy figure recouped for 2014/15	-	-	83.0
Total DSG after Academy recoupment for 2014/15	-	-	(762.9)
Brought forward from 2013/14	-	-	(22.9)
Agreed initial budgeted distribution in 2014/15	(58.5)	(727.3)	(785.8)
In year adjustments	-	5.1	5.1
Final budgeted distribution for 2014/15	(58.5)	(722.2)	(780.7)
Less: Actual central expenditure	30.6	-	30.6
Less: Actual ISB deployed to schools	-	722.2	722.2
Carry forward to 2015/16	**(27.9)**	**-**	**(27.9)**

Comparative data for 2013/14 can be seen below:

	Capital Expenditure £m	Individual Schools' Budget £m	Total £m
Final DSG for 2013/14 before academy recoupment	-	-	(831.7)
Academy figure recouped for 2013/14	-	-	77.6
Total DSG after Academy recoupment for 2013/14	-	-	(754.1)
Brought forward from 2012/13	-	-	(18.5)
Agreed initial budgeted distribution in 2013/14	(61.4)	(711.2)	(772.6)
Final budgeted distribution for 2013/14	(61.4)	(711.2)	(772.6)
Less: Actual central expenditure	38.5	-	38.5

	Capital Expenditure	Individual Schools' Budget	Total
	£m	£m	£m
Less: Actual ISB deployed to schools	-	711.2	711.2
Carry forward to 2014/15	**(22.9)**	**-**	**(22.9)**

15. Pooled budgets

Councils and Clinical Commissioning Groups (CCGs) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below:

Three Pooled Funds exist: 1. East Lancashire CCG with LCC. 2. Chorley South Ribble CCG, Preston CCG, and West Lancashire CCG grouped together with LCC. 3. North Lancashire CCG, Fylde & Wyre CCG, Blackpool CCG and Greater Preston CCG grouped together with LCC. All exist for the integrated commissioning of services for adults with learning disabilities.

	2014/15	2013/14
	£m	£m
Funding provided to the Pooled Budget		
The council	(105.3)	(105.3)
The CCGs	(9.3)	(9.3)
Other	(8.9)	(8.7)
	(123.5)	**(123.3)**
Expenditure met from the Pooled Budget		
The council	125.4	122.5
The CCGs	10.1	9.8
	135.5	**132.3**
Net Surplus/(Deficit) arising on the Pooled Budget during the year	**(12.0)**	**(9.0)**
Council Share of the Net Surplus/(Deficit)	**(11.1)**	**(8.5)**

16. External audit costs

The total amount payable for external audit services carried out by the appointed auditor in 2014/15 was £0.16m (£0.15m in 2013/14). This figure includes a total of £2,800 in respect of grant certification (£3,700 in 2013/14) and £4,200 for a Reasonable Assurance Report on the Teachers' Pension return (£4,200 in 2013/14).

17. Members' allowances

The total amount of members' allowances paid in 2014/15 was £1.2m (£1.3m in 2013/14). Details of the allowances paid can be found via the council's website: www.lancashire.gov.uk

18. Senior officers' remuneration

Disclosure of senior officers' remuneration 2014/15: Salaries over £150k

Post, Title and Name	WTE Salary as Chief Executive	Period Salary Paid in Months	Salary (including fees and allowances)	Benefits In Kind	Total Remuneration (excluding pension contributions)	Pension Contributions	Total Remuneration (including pension contributions)
	£		£	£	£	£	£
Chief Executive - J Turton	170,000	12	170,000	5,848	175,848	21,420	197,268

Disclosure of senior officers' remuneration 2013/14: Salaries over £150k

Post, Title and Name	WTE Salary as Chief Executive	Period Salary Paid in Months	Salary (including fees and allowances)	Benefits In Kind[1]	Total Remuneration (excluding pension contributions)	Pension Contributions	Total Remuneration (including pension contributions)
	£		£	£	£	£	£
Chief Executive - J Turton[2]	170,000	12	169,242	5,300	174,542	32,326	206,868
Chief Executive – P Halsall[3]	194,655	7	162,213	3,091	165,304	21,688	186,992

[1] Benefits In Kind relate to lease car payments and/or excess mileage.

[2] Jo Turton held the post of Executive Director for the Environment until 5th August 2013 and then acted up to the post of Interim Chief Executive from 6th August 2013. She was subsequently appointed Chief Executive on 20th February 2014 on an annual salary of £170,000.

[3] Phil Halsall held the post of Chief Executive until 31st October 2013 on an annual salary of £194,655. His salary included payment in lieu of 3 months' notice.

Disclosure of senior officers' remuneration 2014/15: Remuneration £50k to £150k

Post	Salary (including fees and allowances)	Benefits In Kind[1]	Redundancy Payments	Total Remuneration (excluding pension contributions)	Pension Contributions	Total Remuneration (including pension contributions)
	£	£	£	£	£	£
Interim Executive Director for Children & Young People	125,378	3,881	-	129,259	15,798	145,057
County Treasurer[2]	115,000	5,563	81,162	201,725	14,490	216,215
Executive Director for Adult Services, Health & Wellbeing	121,467	7,121	-	128,588	15,305	143,893
Interim Executive Director for the Environment	121,369	6,708	-	128,077	15,260	143,337
Assistant Chief Executive	93,646	8,023	-	101,669	11,799	113,468
Director of Economic Development	93,646	6,980	-	100,626	11,799	112,425
Director for Public Health	107,083	7,508	-	114,591	14,991	129,582
Head of Communications	72,078	-	-	72,078	9,082	81,160
County Secretary & Solicitor[3]	70,000	2,196	-	72,196	8,820	81,016
County Secretary & Solicitor[4]	47,275	1,427	107,042	155,744	5,427	161,171

[1] Benefits In Kind relate to lease car payments and/or excess mileage.

[2]The County Treasurer's employment with the council ceased on 27th March 2015.

[3]The Deputy County Secretary & Solicitor took up the post of County Secretary & Solicitor on 1st August 2014. The total remuneration shown relates only to the post of County Secretary & Solicitor.

[4]The County Secretary & Solicitor ceased employment with the council on 31st July 2014.

Disclosure of senior officers' remuneration 2013/14: Remuneration £50k to £150k

Post	Salary (including fees and allowances)	Benefits In Kind[1]	Total Remuneration (excluding pension contributions)	Pension Contributions	Total Remuneration (including pension contributions)
	£	£	£	£	£
County Secretary & Solicitor	129,201	3,965	133,166	24,677	157,843
Interim Executive Director for Children & Young People	119,403	112	119,515	22,806	142,321
County Treasurer	112,500	5,300	117,800	21,488	139,288
Executive Director for Adult Services, Health & Wellbeing[2]	109,556	1,787	111,343	20,925	132,268
Interim Executive Director for the Environment[3]	105,111	6,389	111,500	20,806	132,307
Assistant Chief Executive	93,180	7,715	100,895	17,797	118,692
Director of Economic Development	93,180	5,749	98,929	17,797	116,726
Director for Public Health[4]	89,299	-	89,299	12,502	101,800
Head of Communications	71,612	-	71,612	13,678	85,290

[1] Benefits In Kind relate to lease car payments and/or excess mileage.

[2] The Executive Director for Adult Services, Health & Wellbeing was appointed on 12th August 2013.

[3] The Interim Executive Director for the Environment was appointed on 20th August 2013.

[4] The Director for Public Health was appointed on 1st November 2013.

Number of Employees – 2014/15

Remuneration Band (£)[1]	LCC Non-Teaching Staff	Seconded Staff[2]	Schools	LCC Network Staff[3]	Total	Redundancies[4]
50,000–54,999	79	8	294	-	381	13
55,000–59,999	50	7	238	-	295	12
60,000–64,999	51	4	122	-	177	16
65,000–69,999	30	1	49	-	80	7
70,000–74,999	13	1	25	-	39	12
75,000–79,999	11	-	18	1	30	11
80,000–84,999	11	-	11	-	22	10
85,000–89,999	6	-	11	-	17	5
90,000–94,999	3	-	7	-	10	1
95,000–99,999	9	1	8	-	18	3
100,000–104,999	4	-	2	-	6	3
105,000–109,999	2	-	1	-	3	2
115,000–119,999	3	-	-	-	3	1
120,000–124,999	1	-	-	-	1	1
125,000–129,999	4	-	-	-	4	4
130,000–134,999	1	-	-	-	1	1
145,000–149,999	-	1	-	-	1	-
150,000–154,999	-	-	-	1	1	1
180,000–184,999	1	-	-	-	1	1
Total	**279**	**23**	**786**	**2**	**1,090**	**104**

This table does not include any of the Senior Management Team highlighted in the tables above.

[1] Remuneration bands have been removed in cases where the entry for every column was zero.

[2] Includes those who work for BT Lancashire Services (BTLS), Lancashire County Developments Limited (LCDL) and NHS England.

[3] County Council Network Staff are those working for and paid for, by the county council's network who are hosted for pay and rations by Lancashire County Council.

[4] This additional information has been included to show the number of staff whose remuneration included redundancy payments. The redundancy payments have led to some individuals moving up in the remuneration banding and has also meant additional individuals are included in this note.

Number of Employees – 2013/14[1]

Remuneration Band (£)[2]	LCC Non-Teaching Staff	Seconded Staff[3]	Schools	LCC Network Staff[4]	Total	Redundancies[5]
50,000–54,999	89	16	311	-	416	13
55,000–59,999	44	6	196	-	246	13
60,000–64,999	52	6	115	-	173	11
65,000–69,999	50	1	38	1	90	19
70,000–74,999	13	-	27	-	40	11
75,000–79,999	7	-	16	-	23	4
80,000–84,999	8	1	9	-	18	6
85,000–89,999	6	-	11	-	17	3
90,000–94,999	4	1	7	-	12	4
95,000–99,999	9	-	2	-	11	1
100,000–104,999	2	-	1	1	4	1
105,000–109,999	-	-	1	-	1	-
110,000–114,999	1	-	-	-	1	-
115,000–119,999	2	-	-	-	2	1
120,000–124,999	1	-	-	-	1	1
135,000–139,999	1	-	-	-	1	1
145,000–149,999	-	1	-	-	1	-
190,000–194,999	-	1	-	-	1	1
Total	**289**	**33**	**734**	**2**	**1,058**	**90**

This table does not include any of the Senior Management Team highlighted in the tables above.

[1] Prior year comparatives restated as a result of improvements made to reporting systems.

[2] Remuneration bands have been removed in cases where the entry for every column was zero.

[3] Includes those who worked for One Connect Limited (OCL), Lancashire County Developments Limited (LCDL) and NHS England.

[4] County Council Network Staff are those working for and paid for, by the county council's network who are hosted for pay and rations by Lancashire County Council.

[5] This additional information has been included to show the number of staff whose remuneration included redundancy payments. The redundancy payments have led to some individuals moving up in the remuneration banding and has also meant additional individuals are included in this note.

Exit packages

When an employee leaves Lancashire County Council through the ongoing voluntary severance scheme, two types of costs are incurred:

- A redundancy payment received by the employee calculated in line with the relevant policies agreed by the council;
- Where the employee is able to immediately receive any benefits they have built up in the Pension Fund, a payment calculated by the independent actuary is made to compensate the fund for both the employer and employee contributions that will be received due to the early payment of benefits. This payment is **not** made to the individual.

The table below shows the cost to the council of exit packages, not the amount received by an employee (which forms only part of the cost):

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
£							£000	£000
0–20,000	20	11	576	243	596	254	5,223	1,930
20,001–40,000	2	-	190	97	192	97	5,287	2,753
40,001–60,000	-	-	55	43	55	43	2,611	2,060
60,001–80,000	-	-	48	9	48	9	3,266	644
80,001–100,000	-	-	41	14	41	14	3,654	1,230
100,001–150,000	-	-	55	4	55	4	6,684	448
150,001–200,000	-	-	15	-	15	-	2,496	-
200,001-250,000	-	-	4	-	4	-	845	-
250,001-300,000	-	-	1	-	1	-	258	-
400,001-450,000	-	-	1	-	1	-	406	-
Total	**22**	**11**	**986**	**410**	**1,008**	**421**	**30,730**	**9,065**

19. Private Finance Initiative (PFI) schemes

Fleetwood Sports College

In 2001 we signed a PFI contract with Fleetwood PPP Limited to build and service a new single site school. Payments made under the contract are performance-related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £13.4m.

The arrangement runs from September 2002 (when the college opened) to August 2027.

The council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year but is otherwise fixed. An estimate of 1.1% is made for future inflation within the model.

Payments remaining to be made under the PFI contract at 31 March 2015 (excluding any availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2015/16	0.3	0.3	1.1	1.7
Payable within two to five years	1.4	1.8	4.2	7.4
Payable within six to ten years	1.7	3.8	4.3	9.8
Payable within eleven to fifteen years	1.4	2.2	1.4	5.0
Total	**4.8**	**8.1**	**11.0**	**23.9**

To help finance the scheme we received the following income:

	2014/15 £m	2013/14 £m
PFI grant from the government	(1.3)	(1.3)
Contributions from the school	(0.4)	(0.4)
Total	**(1.7)**	**(1.7)**

Building Schools for the Future

We are taking part in the government's Building Schools for the Future Scheme, which aims to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, we have rebuilt the secondary schools in Burnley and part of Pendle in four separate phases under contract with Catalyst Education (Lancashire). Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

For each contract the council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year but is otherwise fixed. An estimate of 1.1% is made for future inflation within the model.

- Phase 1 -The contract will provide two 1,050 place secondary schools, one with a co-located 90 place secondary special school, a sixth form centre, a primary school, a children's centre and a library. The arrangement runs from September 2008 to August 2033.
- Phase 2 – The contract will provide one 1,050 place secondary school with a co-located 90 place secondary special school. The contract also involves providing ongoing services to the buildings. The arrangement runs from September 2009 to August 2034.
- Phase 2a -The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. One of the schools opened in April 2010 and the other in September 2010.
- Phase 3 - The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. The schools opened in September 2010.

Consolidated payments remaining to be made under the PFI contract as at 31 March 2015 for the four phases above (excluding any availability/performance deductions) are as shown in the following table:

	Payments for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m

	Payments for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payable in 2015/16	8.7	4.3	15.5	28.5
Payable within two to five years	39.6	19.4	57.0	115.9
Payable within six to ten years	55.0	32.5	60.7	148.2
Payable within eleven to fifteen years	65.9	43.5	42.7	152.2
Payable within sixteen to twenty years	48.0	63.0	23.6	134.6
Payable within twenty one to twenty five years	0.6	1.6	0.2	2.4
Total	**217.8**	**164.3**	**199.7**	**581.8**

To help finance the scheme we received the following income:

	2014/15 £m	2013/14 £m
PFI grant from the government	(20.5)	(20.5)
Contributions from the schools	(8.8)	(8.3)
Contributions from the local authority	(0.1)	(0.1)
Total	**(29.4)**	**(28.9)**

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

The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2014/15 £m	2013/14 £m
Balance outstanding at start of year	(177.1)	(181.6)
Payments during the year	4.7	4.5
Balance outstanding at year end	(172.4)	(177.1)

Under all these contracts (Fleetwood Sports College and BSF Phases 1, 2, 2a and 3), the council has the rights to utilise the buildings. Each school is made available for use in the following priority order: (i) provision of education services, (ii) community use, and (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFIs are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, by either the council or by the contractor. This may be in the form of voluntary termination by the council, termination by the contractor council default, or termination by the council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

Lancashire Waste PFI scheme

The PFI liability in respect of the waste scheme was £225.8m at 1 April 2015. The contract was terminated with effect from 31 July 2014 and the liability settled in full through borrowing. The settlement value included a premium on early repayment of £24.3m which is being amortised over the remaining 23 years of the borrowing, in line with the original contract timescales. Please refer to the Introduction to the Statement of Accounts and to note 38 for more information.

20. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Private Finance Initiative contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

	2014/15 £m	2013/14 £m
Opening Capital Financing Requirement	**1,039.0**	**1,074.2**
Capital investment:		
Property, Plant and Equipment & Assets Held for Sale	156.7	137.4
Intangible Assets	2.5	8.5
Revenue Expenditure Funded from Capital Under Statute	18.9	8.7
Sources of Finance:		
Capital receipts	(11.4)	-
Government grants and other contributions	(150.9)	(138.1)
Sums set aside from revenue:		
Direct revenue contributions	(15.8)	(16.5)
Write down of PFI liability	(6.3)	(7.6)
Minimum Revenue Provision (MRP)/ loans fund principal	(30.2)	(27.6)
Closing Capital Financing Requirement	**1,002.5**	**1,039.0**
Explanation of movements in year:		
Increase/decrease in underlying need to borrowing (supported by government financial assistance)	(23.8)	(27.6)
Increase in underlying need to borrowing (unsupported by government financial assistance)	(6.4)	-
Write down PFI Liability	(6.3)	(7.6)
Increase (decrease) in Capital Financing Requirement	**(36.5)**	**(35.2)**

Future capital spending commitments

Due to the long term nature of many capital projects we are committed to certain levels of capital spending in the future with many projects agreed in previous years not due to be completed until later years.

Our legally committed capital expenditure as at 31 March 2015 is £89.9m (31 March 2014: £142.0m) as detailed below:

	£m
Adult Services, Health and Wellbeing	0.7
Children and Young People Schools	12.7
Children and Young People Service	2.8
Environment	70.5
Resources	3.2
Total	**89.9**

21. Property, Plant and Equipment

The Property, Plant and Equipment figure includes properties valued at some £687m which are not owned by the county council. These are principally voluntary aided, voluntary controlled and foundation schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the county council's balance sheet to fairly reflect the value of the assets used in providing the service.

The effect of recent economic conditions has been considered and as a result, the Property, Plant and Equipment figure in the balance sheet represents the value of the assets held.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment
	£m	£m	£m	£m	£m
Cost or Valuation					
At 1 April 2014	**2,081.3**	**75.4**	**687.8**	**28.9**	**2,873.4**
Additions	33.7	5.4	106.5	10.9	156.5
De-recognition – disposals	(3.8)	-	-	-	(3.8)
Revaluations increases/(decreases) recognised in Revaluation Reserve	15.5	-	-	-	15.5
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(167.4)	-	-	-	(167.4)
Assets reclassified	1.6	-	-	-	1.6
At 31 March 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**
Depreciation and Impairments					
At 1 April 2014	**(110.5)**	**(42.4)**	**(80.5)**	**-**	**(233.4)**
Depreciation charge for 2014/15	(24.7)	(7.1)	(16.2)	-	(48.0)
Depreciation written out to Revaluation Reserve	5.0	-	-	-	5.0
Depreciation written out to the Surplus/Deficit on Provision of Services	38.6	-	-	-	38.6
De-recognition – disposals	0.2	-	-	-	0.2
At 31 March 2015	**(91.4)**	**(49.5)**	**(96.7)**	**-**	**(237.6)**
Net Book Value at 31 March 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**
Net Book Value at 31 March 2014	**1,970.8**	**33.0**	**607.3**	**28.9**	**2,640.0**

Within the land and buildings is included the waste treatment facilities. In addition to the land and the fabric of the building, the value includes an element for equipment which is considered to be integral to the overall facility rather than the separate items of loose equipment.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment
	£m	£m	£m	£m	£m

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment
	£m	£m	£m	£m	£m
Cost or Valuation					
At 1 April 2013	2,109.4	71.3	623.1	0.7	2,804.5
Additions	37.6	5.9	64.7	28.2	136.4
De-recognition – disposals	(39.1)	-	-	-	(39.1)
De-recognition – others	2.1	(1.8)	-	-	0.3
Revaluations increases/(decreases) recognised in Revaluation Reserve	14.7	-	-	-	14.7
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(37.6)	-	-	-	(37.6)
Assets reclassified	(5.8)	-	-	-	(5.8)
At 31 March 2014	**2,081.3**	**75.4**	**687.8**	**28.9**	**2,873.4**
Depreciation and Impairments					
At 1 April 2013	(90.8)	(35.8)	(65.6)	-	(192.2)
Depreciation charge for 2013/14	(24.7)	(7.6)	(14.9)	-	(47.2)
De-recognition – disposals	3.1	-	-	-	3.1
De-recognitions – others	1.9	1.0	-	-	2.9
At 31 March 2014	**(110.5)**	**(42.4)**	**(80.5)**	**-**	**(233.4)**
Net Book Value at 31 March 2014	**1,970.8**	**33.0**	**607.3**	**28.9**	**2,640.0**
Net Book Value at 31 March 2013	**2,018.6**	**35.6**	**557.5**	**0.7**	**2,612.4**

Effects of changes in estimates

In 2014/15 the council made no material changes to its accounting estimates for property, plant and equipment.

Depreciation

The useful lives for land and buildings used for depreciation are assessed by the valuer in groups of 10 years up to over 50 years, namely:

Life Grouping	Life used for depreciation
0 up to 10 years	specific asset life used
10-20 years	10
20-30 years	20
30-40 years	30
40-50 years	40
Over 50 years	50

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land is not depreciated
- Vehicles, Plant, Furniture and Equipment - 10 years
- Infrastructure generally 50 years with exceptions as based on advice from surveyors

Property, Plant and Equipment valuation

All valuations have been undertaken in accordance with the practice statements, guidance notes and valuation information papers of the Royal Institution of Chartered Surveyors' (RICS) Valuation Standards (The Red Book) and in accordance with CIPFA regulations and current Code of Practice on Local Authority Accounting.

Properties regarded by the council as operational are to be valued on the basis of existing use value or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost.

Properties regarded by the council as non-operational are to be valued on the basis of market value.

No property valuation is to be more than five years old and at least 20% of properties are revalued each year.

The following statement shows the progress of the council's rolling programme for the revaluation of property, plant and equipment. Valuations are undertaken internally by Lancashire County Council's Property Group with the exception of the waste plant equipment for which specialist valuers have been commissioned. All valuations have been undertaken by qualified Chartered Surveyors who are members of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings
	£m
Valued at historical cost	123.5
Valued at current value in:	
2014/15	393.3
2013/14	400.6
2012/13	311.9
2011/12	147.4
2010/11	584.1
Total	**1,960.8**

22. Heritage Assets

The council's heritage assets are mainly contained within the Museum Service and the Libraries Special Collection. The museum service contains some 140,000 items which cover a variety of artefacts which are relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects. This collection has been valued by in-house professionals and a valuation of £13.5m has been placed on the collection.

Lancashire also holds a special Libraries Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the library service they are to be treated as a heritage asset and a valuation made. Again, these valuations have been made by internal professional staff and it is estimated that the collection is valued at £14.6m.

Other heritage assets with a value of £0.6m are held in the record office, however most of the archives are either operational documents relating to the work of the county council or held on behalf of other organisations or individuals and therefore do not form part of the county council's heritage assets.

In addition, Lancashire County Council has an interest in two properties which are considered as heritage assets but due to their nature it is not considered appropriate to place a value on them and therefore they are included at a nominal value of £1. These properties are Gawthorpe Hall a 17th century country house held on a long term lease from the National Trust and part of Ribchester Roman Bath House.

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

As part of the valuation process for heritage assets consideration is given as to whether there has been any physical damage or any factors which are likely to significantly affect the market value. Where there is a change in the value of the heritage assets the normal accounting policy for the change as outlined in the accounting policy for property, plant and equipment will be followed.

Lancashire County Council maintains accession registers for its heritage assets. Some of these records are published on the internet for as broad access as possible. Work is ongoing to migrate any paper records that accompany existing collections onto the computerised system.

Access to collections (assets) and their records can be affected in a number of ways from virtual access to physical examination – either on display in temporary or longer term displays and exhibitions or on request from those held in store. For the latter a mutually convenient appointment is needed to view the item(s) concerned.

No collection is static and Lancashire County Museum Service is currently reviewing certain areas of the collections to identify any areas that are not appropriate to the formal Acquisition and Disposals Policy or are not in a fit state for long term preservation. If any items are thought to be appropriate for rationalisation the Museums Association code of practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location of an item before any consideration of final disposal is made.

There was no material change in the value of heritage assets during 2014/15.

23. Financial instruments

The following categories of financial instruments are carried in the balance sheet. The instruments have been valued in accordance with International Financial Reporting Standards (IFRS) using the accounting policies explained within our accounting policies section.

	Long-term		Current	
	31/03/2015	31/03/2014	31/03/2015	31/03/2014
	£m	£m	£m	£m
Cash and cash equivalents				
Loans & receivables (See Table 2 Note 25)	-	-	130.3	91.4
Investments				
Loans & receivables (See Table 2 Note 25)	63.8	127.1	74.6	23.7
Available-for-sale financial assets	198.4	360.8	-	-
Financial assets at fair value through profit and loss	-	-	193.2	1.0
Total investments	262.2	487.9	267.8	24.7
Debtors				
Loans & receivables	74.2	41.1	108.3	80.6
Borrowings				
Financial liabilities at amortised cost (See Table 1 Note 25)	(467.6)	(436.1)	(574.1)	(384.0)
Other Liabilities (PFI related)				
Financial liabilities at amortised cost (See Table 1 Note 25)	(167.8)	(395.4)	(4.6)	(7.5)
Creditors				
Financial liabilities at amortised cost	-	-	(177.0)	(166.4)

24. Income, expense, gains and losses on financial instruments

The gains and losses during 2014/15 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table:

2014/15	**Financial Liabilities at Amortised Cost**	**Financial Assets: Loans & Receivables**	**Financial Assets: Available for Sale**	**Assets and Liabilities at Fair Value through Profit & Loss**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Interest Expense	67.9	-	-	-	67.9[1]
Fee Expense	0.5	-	-	-	0.5
Total Expense in Surplus on the Provision of Services	**68.4**	**-**	**-**	**-**	**68.4**
Interest Income	-	(4.9)	(5.1)	(1.1)	(11.1)
Decreases in fair value	-	-	-	0.1	0.1
Gains on de-recognition	-	-	(14.7)	(66.0)	(80.7)
Loss on de-recognition	-	0.5	1.2	7.6	9.3
Total income in Surplus on the Provision of Services	**-**	**(4.4)**	**(18.6)**	**(59.4)**	**(82.4)**
Gains on revaluation	-	-	(20.8)	-	(20.8)
(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	**-**	**-**	**(20.8)**	**-**	**(20.8)**
Total Net (Gain)/Loss for the Year	**68.4**	**(4.4)**	**(39.4)**	**(59.4)**	**(34.8)**

[1] This includes a premium of £24.3m in relation to the refinancing of Waste Treatment Facilities

2013/14	**Financial Liabilities at Amortised Cost**	**Financial Assets: Loans & Receivables**	**Financial Assets: Available for Sale**	**Assets and Liabilities at Fair Value through Profit & Loss**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Interest Expense	63.3	-	-	-	63.3
Fee Expense	0.4	-	-	-	0.4
Total Expense in Deficit on the Provision of Services	**63.7**	**-**	**-**	**-**	**63.7**
Interest Income	-	(5.7)	(11.2)	(1.8)	(18.7)
Gains on de-recognition	-	-	(2.2)	(2.7)	(4.9)
Loss on de-recognition	-	-	0.5	3.6	4.1
Total income in Deficit on the Provision of Services	**-**	**(5.7)**	**(12.9)**	**(0.9)**	**(19.5)**
Losses on revaluation	-	-	26.3	-	26.3
Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	**-**	**-**	**26.3**	**-**	**26.3**
Total Net (Gain)/Loss for the Year	**63.7**	**(5.7)**	**13.4**	**(0.9)**	**70.5**

25. Fair value of financial assets and liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions;

- Estimated ranges of interest rates at 31 March 2015 of 0.6% to 4.625% for loans from the PWLB and 0.45% to 3.8% for other loans receivable and payable based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- The fair value of PFI – using rates determined by the treasury based on a gilt zero coupon curve.

The carrying values of the financial instruments can be seen in Note 23. The tables below disclose the fair value of the financial instruments, except for the following:

- Short term debtors and creditors, as carrying value is reasonable approximation of fair value.
- Available for sale assets and assets and liabilities at fair value through profit or loss because these are carried in the balance sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Table 1

	31/03/2015		31/03/2014	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£m	£m	£m	£m
Financial liabilities	(1,214.2)	(1,426.6)	(1,223.0)	(1,552.6)

The fair value of the liabilities is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

Table 2

	31/03/2015		31/03/2014	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£m	£m	£m	£m
Loans & Receivables	303.8	315.3	242.2	244.3

The fair value of the assets is higher than the carrying amount because the council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This shows a notional future profit (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest above current market rates.

26. Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the council.
- **Liquidity risk** – the possibility that the council might not have funds available to meet its commitments to make payments.
- **Market risk** – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock movements.

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

Credit risk

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

With regard to financial institutions the risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration which the county council can be invested in an institution depending upon the quality of credit rating and over the 2014/15 financial year, despite the downgrading of the UK Government, the investment portfolio has maintained a very high AA credit rating. However, in the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

A main principle of the 2014/15 credit risk strategy was to invest mainly in UK government credit through nationalised' banks and government guaranteed bonds. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

The table below analyses the portfolio by the credit rating of the counterparties at 31 March 2015 and summarises the county council's investments as at 31 March 2015 (values exclude impairments and accrued interest), in term of credit ratings. The historic default rate for the individual investment category is applied to each group to give an overall measure of the value at risk. The chance of a default is currently calculated as £1.8m in £586.2m or 0.31% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	**107.2**	**35.0**	**-**	**55.0**	**55.3**	**171.5**	**33.4**	**128.8**	**586.2**
Historic default rate (AA-, %)	-	0.01	0.02	0.04	0.09	0.34	0.63	0.63	
Historic default rate (A+, %)	-	0.01	0.02	0.03	0.06	0.33	0.70	0.70	
Historic default rate (A, %)	0.01	0.02	0.04	0.07	0.20	0.79	2.09	2.09	
Historic default rate (BBB %)	0.02	0.05	0.10	0.19	0.55	1.97	4.25	4.25	
Exposure to default (£m)	**-**	**0.01**	**-**	**0.08**	**0.05**	**0.58**	**0.23**	**0.85**	**1.8**

Comparative data for 2013/14 can be seen below:

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	77.7	-	0.4	-	75.0	80.2	60.8	244.2	538.3
Exposure to default (£m)	-	-	-	-	0.16	0.07	0.29	1.66	2.18

The maximum single commercial exposure is to Svenska Handelsbanken at £87.0m (2013/14 £70.0m to RBS), which is lower than the individual counterparty limit of £100m for cash deposits. Overall the portfolio is diversified by the use of 37 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The county council manages aged debt within the agreed policy.

Liquidity risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations.

Lancashire County Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the county council has ready access to borrowings from the money markets and the Public Works Loans Board and access to their investment portfolio which is also considered to be liquid. There is no significant risk that the county council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates however this is not considered to be material. The Director of Financial Resources will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market risk

The market risk to which the county council is exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the county council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall (this has no effect on the surplus or deficit on the provision of services).
- Investments at variable rates - the interest income credited to surplus or deficit on the provision of services will rise.
- Investments at fixed rates – the fair value of the investments will fall.

Market Risk – Borrowings

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

As part of a balanced portfolio, the interest rate risk is further mitigated by two factors:

- Maturing and available for sale short term investments which could be used to pay down debt, should it become cost effective to do so.
- A long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.5% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

The Director of Financial Resources will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market Risk – Investments

A fall in the fair value of fixed rate investments that are held for trading will result in a charge to the surplus or deficit on the provision of services, reducing the County Fund balance. A fall in the fair value available-for-sale investments will be reflected in other comprehensive income. A fall in the fair value of other investments will have no impact on the primary financial statements, but will be disclosed in the notes to the accounts.

The county council also holds index linked investments the fair value of which rises as inflation rises, and a Lender Option Borrower Option (LOBO) loan for which the expense charged to the surplus or deficit on the provision of services will fall as interest rates rise. All of these instruments are part of a strategy to take advantage of current market conditions whilst managing interest rate risk.

The Treasury Management team is constantly refining the active strategy for assessing interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The following table attempts to quantify the interest rate risk looking back at the 31 March 2015 position.

The effect if interest rates were 1% higher with all other variables held constant:	**£m**
Increase in interest payable on variable rate borrowings	4.6
Increase in interest receivable on variable rate investments	(1.8)
Decrease in fair value of investments held for trading*	4.6
Impact on surplus on the provision of services	**7.4**
Decrease in fair value of fixed rate available for sale investment assets	30.4
Impact on other Comprehensive Income & Expenditure	**37.8**
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(9.4)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(30.8)

* Note that a rise in interest rates is also likely to result in a rise in inflation expectations which will cause the fair value of index linked investments to rise and partly offset the charge to the Surplus on the Provision of Services

The impact of a 1% fall in interest rates would be as above but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise. This is the consequence of the current short term borrowing policy which has provided the in-year reduction in debt interest costs, and which is being carefully managed having regard to the potential for interest rates to rise.

This risk management process has begun with the inverse Lender Options Borrower Option loan outlined above. Regarding the investment portfolio it is anticipated that, in the current environment, any interest rate rises would follow a prolonged period of rising inflation, and therefore the current holding of inflation linked AAA rated bonds would provide some protection against the operating cost inflation risk.

27. Debtors

	31/03/2015	**31/03/2014**
	£m	**£m**
Central Government Bodies	23.0	22.5
NHS Bodies	16.2	11.3
Other Public Corporations	0.1	-
Other Local Authorities	25.0	19.8
Other Debtors	71.5	56.3
Total	**135.8**	**109.9**

Other debtors mainly comprises of low value high volume debtors for supply of goods and services with the exception of council tax owing £16.7m (£14.6m in 2013/14) and NNDR owing £1.0m in 2014/15 (£0.7m in 2013/14).

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £34.8m in 2014/15 (£30.9m in 2013/14). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

28. Creditors

	31/03/2015 £m	31/03/2014 £m
Central Government Bodies	(19.8)	(20.5)
Other Local Authorities	(14.8)	(19.4)
NHS Bodies	(5.3)	(6.8)
Accumulated Absences	(23.3)	(29.7)
Other Creditors	(141.3)	(134.7)
Total	**(204.5)**	**(211.1)**

Central Government Bodies include PAYE & NI £14.0m (£14.3m in 2013/14).

Other creditors mainly comprise low value high volume creditors for the purchase of goods and services with the exception of £23.0m (£0.0m 2013/14) for the purchase of investments, PFI £1.9m (£10.2m in 2013/14) and Adult Social Care non-residential placements £12.0m (£8.3m in 2013/14).

29. Cash and cash equivalents

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

	31/03/2015 £m	31/03/2014 £m
Cash held by council	0.8	0.7
Bank current accounts	22.2	33.0
Short term deposits under 3 months	107.3	57.7
Total cash and cash equivalents	**130.3**	**91.4**

30. Provisions

We keep some funds set aside to provide for specific expenses, the exact cost of timing of which is still uncertain. These funds are known as 'provisions'. The changes to these funds are summarised in the following table:

	Balance as at 1 April 2014 £m	Additional provision made in 2014/15 £m	Spending met from the provision in 2014/15 £m	Unused amounts reversed in 2014/15 £m	Balance as at 31 March 2015 £m
Total Long Term Provisions	**(18.8)**	**(6.3)**	**11.1**	**0.2**	**(13.8)**
Total Short Term Provisions	**(8.1)**	**(17.4)**	**6.5**	**1.0**	**(18.0)**
Total Provisions	**(26.9)**	**(23.7)**	**17.6**	**1.2**	**(31.8)**

Total Long Term provisions include Insurance Provision of £10.4m (£15.2m in 2013/14).

Total Short Term provisions include Early Retirement Early Severance provision of £9.9m (£0.5m in 2013/14) and National Non-domestic Rate (NDR) provision of £5.2m (£2.5m in 2013/14).

31. Usable reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement.

32. Unusable reserves

The table below gives detail of the county council's unusable reserves:

	31/03/2015 £m	31/03/2014 £m
Available for Sale Financial Instruments Reserve	6.6	27.4
Financial Instruments Adjustment Account	48.2	27.1
Revaluation Reserve	(674.2)	(665.0)
Capital Adjustment Account	(1,020.0)	(999.8)
Pension Reserve	1,238.2	905.1
Collection Fund Adjustment Account	(6.4)	(2.8)
Accumulated Absences Account	23.2	29.7
Total Unusable Reserves	**(384.4)**	**(678.3)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2014/15 £m	2013/14 £m
Balance as at 1 April	**27.4**	**1.1**
Upward revaluation of investments	(20.8)	-
Downward revaluation of investments not charged to the surplus/deficit on the Provision of Services	-	26.3
Balance as at 31 March	**6.6**	**27.4**

Financial Instrument Adjustment Reserve

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

	2014/15 £m	2013/14 £m
Balance as at 1 April	**27.1**	**29.6**
Premiums incurred in year and charged to the Comprehensive Income & Expenditure Statement	24.3[1]	-
Proportion of premiums incurred in previous financial years to be charged against county fund balance	(3.2)	(2.5)
Balance as at 31 March	**48.2**	**27.1**

[1]This relates to the refinancing of waste treatment facilities.

Revaluation Reserve

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

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

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

	2014/15 £m	2013/14 £m
Balance as at 1 April 2014	**(665.0)**	**(663.2)**
Upward revaluation of assets	(59.4)	(70.8)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	38.9	56.1
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(20.5)**	**(14.7)**
Difference between fair value depreciation and historical cost depreciation	10.1	9.4
Accumulated gains on assets sold or scrapped	1.2	3.5
Amount written off to the Capital Adjustment Account	**11.3**	**12.9**
Balance as at 31 March 2015	**(674.2)**	**(665.0)**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 details the source of all the transactions posted to the account.

	2014/15 £m	2013/14 £m
Balance as at 1 April 2014	**(999.8)**	**(930.2)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non-current assets	48.0	47.2
Revaluation losses on Property, Plant and Equipment including assets held for sale	128.8	38.4
Amortisation of intangible assets	3.9	2.8
Revenue expenditure funded from capital under statute	18.9	8.7
Reversal of charge re transfer of academies	-	13.3
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	6.0	22.7
Write down of Private Finance Initiative (PFI) liability	(6.3)	(7.6)
Adjusting amounts written out of the Revaluation Reserve	(11.3)	(12.9)
	(811.8)	**(817.6)**
Capital financing applied in the year		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(125.5)	(78.6)
Application of capital grants to capital financing from the Capital Grants Unapplied Account	(25.3)	(59.5)
Application of receipts to capital financing from the Capital Receipts Reserve	(11.4)	-
Statutory provision for the financing of capital investment charged against the County Fund	(30.2)	(27.6)
Capital expenditure charged against the County Fund	(15.8)	(16.4)
	(208.2)	**(182.1)**
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	-	1.5
Reclassifications – PPE adjustments and waste PFI deferred consideration write out	-	(1.6)
Balance as at 31 March 2015	**(1,020.0)**	**(999.8)**

Comment [WJ1]: Footnote "Includes "£107.1m revaluation loss relating to waste treatment facilities" removed per Abbi

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31/03/2015 £m	31/03/2014 £m
Balance as at 1 April 2014	**905.1**	**1,127.1**
Re-measurements of the net defined benefit liability/(asset)	301.9	(273.8)
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	125.0	134.9
Employer's pension contributions and direct payments to pensioners payable in the year	(93.8)	(83.1)
Balance as at 31 March 2015	**1,238.2**	**905.1**

33. Long term debtors

Long term debts to the council are shown below:

	31/03/2015 £m	31/03/2014 £m
Transferred Debt[1]	39.1	41.1
Finance Lease Debtor[2]	35.1	-
Total	**74.2**	**41.1**

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

[2]Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor, as below:

Finance lease debtor (net present value of minimum lease payments)	31/03/2015 £m
Current	2.2
Non-current	52.9
Unearned finance income	20.0
Gross investment in the finance lease	35.1

The gross investment in the finance lease will be received over the following periods:

	Gross investment in the lease 31/03/2015 £m	Minimum lease payments 31/03/2015 £m
Not later than one year	0.9	2.2
Later than one year but not later than five years	3.8	9.0
Later than five years	30.4	43.9
Total	**35.1**	**55.1**

Cash flow statement notes

34. Cash flows from operating activities: Interest (memorandum)

The cash flows below i.e. interest received and interest paid are included in the cash flows from operating activities.

	2014/15 £m	2013/14 £m
Interest Received	(83.9)	(18.5)
Interest Paid	41.2	63.9

35. Cash flows from operating activities

	2014/15 £m	2013/14 £m

	2014/15 £m	2013/14 £m
Net (surplus) or deficit on the provision of services	**(48.6)**	**19.9**
Adjustment to surplus or deficit on the provision of services for non-cash movements		
Depreciation	(48.0)	(47.2)
Impairment and downward valuations	(128.8)	(39.9)
Amortisation of intangible assets	(3.9)	(2.8)
Increase/(Decrease) in impairment provision for bad debts	3.8	5.5
(Increase)/Decrease in creditors	21.1	(1.3)
Increase/(Decrease) in debtors	15.0	(8.4)
Increase/(Decrease) in inventories	(0.2)	0.5
Movement in pension liability	(31.2)	(51.8)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	(6.0)	(36.0)
Other non-cash items charged to the net surplus on the provision of services	(5.3)	3.1
	(183.5)	**(178.3)**
Adjust for items included in the net surplus on the provision of services that are investing or financing activities		
Capital Grants credited to the surplus on the provision of services	152.2	98.1
Net proceeds from the sale of short and long term investments	71.9	0.8
Proceeds from the sale of property plant and equipment, investment property and intangible assets	13.1	4.7
	237.2	**103.6**
Net Cash Flows from Operating Activities	**5.1**	**(54.8)**

36. Cash flows from investing activities

	2014/15 £m	2013/14 £m
Purchase of Property, Plant and Equipment, investment property and intangible assets	166.3	134.3
Purchase of investments	12,186.0	877.2

	2014/15 £m	2013/14 £m
Other payments for investing activities	35.5	0.7
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(13.1)	(4.7)
Proceeds from the sale of investments	(12,282.0)	(827.4)
Other capital grants and receipts from investment activities	(151.6)	(86.2)
Net Cash Flows from Investing Activities	**(58.9)**	**93.9**

37. Cash flows from financing activities

	2014/15 £m	2013/14 £m
Cash receipts from borrowing	(1,275.5)	(1,260.5)
Appropriation to/from Collection Fund Adjustment Account	3.7	2.6
Repayment of borrowing	1,059.1	1,185.4
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	227.6	7.6
Net Cash Flows from Financing Activities	**14.9**	**(64.9)**

38. Acquired operations

On 31 July 2014 LCC acquired Global Renewables Lancashire Operations Limited (GRLOL), a company which operates facilities for the processing of municipal waste on behalf of LCC. Prior to acquisition by LCC the company was a special purpose company established to fulfil the operating commitments of the LCC Waste PFI contract. LCC acquired 100% of the company for the nominal sum of £1 on termination of the PFI contract. The effective share of ownership of the operating company is 87.5% LCC and 12.5% Blackpool Council. The proportionate ownership is in line with joint working arrangements between LCC and Blackpool Council and in line with the previous PFI contract.

The assets acquired on termination of the PFI agreement are the shares in GRLOL, at a nominal value of £1. The net assets of GRLOL, measured under IFRS, amount to £nil at both the acquisition and balance sheet dates and hence the difference between the consideration of £1 and the net identifiable assets acquired, measured at acquisition-date fair values does not result in the recognition of goodwill on acquisition.

39. Related parties

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

Central Government

Central government has significant influence over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in note 13 on reporting for resources allocation decisions.

Members

Members of the county council have direct control over the council's financial and operating policies. Under section 81 the Local Government act 2000, their outside interests are recorded in a formal register, The Register of Interest, which is available for inspection at the office of the Chief Executive, County Hall, Preston. The details of how to view the register can also be found on the council's website at:

http://www.lancashire.gov.uk/council/transparency/registers/county-councillors-register-of-interests/

Our code of conduct requires county councillors to declare any related interests they have and to take no part in meeting or decisions on issues involving those interests.

In preparing this statement of accounts we have asked all councillors to fill in a declaration about any interests which they or their family may have in organisations that we deal with. These interests include:

- Roles with voluntary organisations and charities which may receive grants from the council.
- Roles where they have significant influence/control within Limited Companies that has a contract with the council
- Family members that have significant influence/control within any organisation that has dealings with the council.

Revealed below is a list where councillors or a member of their family are involved and have significant control with an organisation.

There were a number of transactions that were identified between Lancashire County Council and these organisations.

None of the transactions were classed as significant to Lancashire County Council.

- CC Barrie Yates is a board member of New Progress Housing, the organisation received payments totalling £941,644.
- CC Steven Holgate is a non-executive director for Adactus Housing Group, the organisation received payments totalling £355,610.
- CC Ian Brown is a board member of Ribble Valley Homes, the organisation received payments totalling £133,833.
- CC Jennifer Mein is a trustee at Emmaus Preston, the charity received payments totalling £69,129.
- CC Mike Otter is a trustee at Community Futures and Lancashire West Citizens Advice Bureau. Community Futures received payments totalling £6,312 and Lancashire West Citizens Advice Bureau received payments totalling £53,262.
- CC Alan Schofield is a trustee director at Ribble Valley Citizens Advice Bureau, the organisation received payments totalling £25,000.
- CC Carl Crompton is a board member of Gift 92, the charity received payments totalling £20,832.

Some county councillors hold positions on companies referred to in the companies section of this note, therefore any transactions between the two entities are referred to in that section.

Officers

Our senior officers may influence our financial and operating policies. The officers of the Management Team have filled in a declaration about their related interest and those of their family. This has revealed that the Management Team officers had roles in the following organisations during 2014/15.

- Gill Kilpatrick, the county treasurer was treasurer to the Lancashire County Pension fund until 27th March 2015.
- Steve Browne, interim executive director for environment is also chairman of the board of Preston's College. The College received payments totalling £654,595.

Lancashire County Pension Fund

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

The council incurred costs of £4,533,986 (2013/14: £4,246,713) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £79,496,428 to the fund in 2014/15 (2013/14: £69,121,159). All monies owing to and due from the Fund were paid in year.

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

Global Renewables Lancashire Operations Limited

This company was acquired by LCC on 31 July 2014. Please refer to note 38 above for more details of the acquisition. The company's board of directors currently comprises five County Councillors and one Blackpool Councillor. LCC and Blackpool make quarterly payments to fund the running of the company and reimburse monthly payments to third party specialist waste disposal companies. Payments to GRLOL from 1st August 2014 to 31st March 2015 were £18,822,655 for the running and lifecycle costs and £6,070,163 for the reimbursed costs. Unspent waste minimisation and local market development funds totalling £1,463,148 were transferred back to Lancashire County Council. At 31st March 2015 the amount owed by LCC to GRLOL is £148,202. The amount owed to LCC from GLROL at 31st March 2015 is £87,500. These all exclude Blackpool's 12.5% share.

A copy of the statement of accounts is available from the GRLOL registered office: PO Box 78, County Hall, Fishergate, Preston, Lancashire PR1 8XJ.

BT Lancashire Services Limited.

From 1st April 2014 the partnership between BT and Lancashire County Council (One Connect Limited) was terminated. The company became a wholly owned BT subsidiary and was renamed BT Lancashire Services Limited.

Lancashire County Developments Ltd

Lancashire County Developments Ltd (LCDL) acts as an economic and job creation agency for the county. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The council controls 80% of the members' voting rights and it is classed as a subsidiary of the county council.

County councillors and county council senior officers are represented on the board. The county council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not allowed to distribute profits as dividends.

Sales to Lancashire County Council during the year amount to £4,133,019 (2013/14: 3,329,345). Purchases from Lancashire County Council amount to £1,801,952 (2013/14: £3,254,488). The amount owed by Lancashire County Council to this related party at 31 March 2015 is £923,790 (2013/14: £3,006,955). The amount owed to Lancashire County Council from this related party at 31 March 2015 is £nil (2013/14: £31,647).

A copy of the statement of accounts is available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

The Via Partnership (formerly CXL)

CXL was incorporated on 11th January 2007 to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. CXL changed its name to The Via Partnership Limited on the 4 April 2013.

The Via Partnership is owned by Lancashire County Council with 40% shares; Blackburn with Darwen Borough Council with 30% shares; and Blackpool Borough Council with 30% shares. The voting rights of each council in general meetings of the company directly reflect their shareholdings. Senior representatives of the three councils are members of the board.

In 2013/14 Financial Year the three shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1million for working capital purposes to be repaid over the next eight to ten years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Council £300,000 and Blackpool Council £300,000).

During the year, the company declared purchases of £50,631 from Lancashire County Council and a creditor balance of £90,536 due to Lancashire County Council. Sales for the year to Lancashire County Council are £472,743 and the amount owed by Lancashire County Council to The Via Partnership as at 31st March 2015 amounts to £65,007.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from The Via Partnership Ltd registered office: County Hall, Preston, Lancashire, PR1 8XJ.

Marketing Lancashire Limited

Marketing Lancashire Ltd was created in 2004. It is one of four tourist boards that succeeded the North West Tourist Board. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. County councillors are represented on the board.

During the year, the company declared purchases of £22,085 (2013/14: £nil) from Lancashire County Council and a creditor balance of £nil (2013/14: £nil) due to its member Lancashire County Council. Sales for the year to Lancashire County Council are £82,766 (2013/14: £37,170) and the amount owed by Lancashire County Council to Marketing Lancashire as at 31st March 2015 amounts to £1,382 (2013/14: £1,902).

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Marketing Lancashire Ltd (formerly Lancashire and Blackpool Tourist Board Ltd) in the past.

Lancashire Sports Partnership Ltd

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 local authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college as a company limited by guarantee with a Board of Trustees.

During the year, the company received funding of £15,000 (2013/14: £21,577) from its member, Lancashire County Council. The company paid £6,106 (2013/14: £9,629) to Lancashire County Council for the use of conferencing facilities and for the recharge of other services.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Lancashire Workforce Development Partnership Limited

This organisation is a Company Limited by Guarantee providing support through products and services designed to improve the skills and knowledge of the independent and private social care sector workforce within the Lancashire County Council boundaries. It is controlled by Lancashire County Council within the meaning of Part V of the Government and Housing Act (1989) with a liability limited to £1.

An amount of £700,000 (2013/14: £1,200,000) was received in the year under a service agreement with Lancashire County Council. In addition Lancashire Workforce Development Partnership invoiced Lancashire County Council for room hire of £nil (2013/14: £134). Lancashire Workforce Development Partnership also paid £45,446 in contributions (2013/14: £58,366) to the Local Government Pension Scheme administered by Lancashire County Council.

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

Public Transport Information Ltd

Public Transport Information (PTI) Ltd provides a public transport information service. It is part of the national Traveline network. PTI Ltd is a company limited by guarantee and has no issued share capital. The liability of a member is limited to £1.

Lancashire County Council made contributions to the company of £47,778 (2013: £102,521) during the year. During the year, Public Transport Information Limited acquired licenses with a total cost of £3,400 (2013: £2,355) on behalf of Lancashire County Council which were subsequently recharged at cost. At the year end, Lancashire County Council were owed £nil (2013: £nil) by Public Transport Information Limited, and owed £nil (2013: £nil) to the company.

A copy of the accounts can be obtained from Companies' House, www.companieshouse.gov.uk.

Healthwatch Lancashire Limited

Healthwatch Lancashire Limited commenced operations on 1st April 2013 and is commissioned by the county council to undertake statutory functions on the council's behalf.

Healthwatch is the independent consumer champion for both health and social care. It exists in two distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire is to give citizens and communities a stronger voice to influence and challenge how health and social care services are provided within their locality. Healthwatch Lancashire also provides or signposts people to information to help them make choices about health and care services.

During the year, the company has declared purchases of £109 (2013/14: £7,200) from Lancashire County Council. Funding received during the year from Lancashire County Council amounts to £788,000 (2013/14: £305,000).

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

40. Contingent liabilities

There may be a contingent liability flowing from a recent decision in the Employment Appeal Tribunal that 'non-guaranteed' overtime (overtime that the employer does not guarantee to provide) is to be included in the calculation of holiday pay in certain circumstances. This only applies to the four weeks' holiday pay entitlement which derives from the EU working time directive (referred to as Regulation 13 holiday entitlement under the Working Time Regulations 1998). As regards to the payment of back pay, this is limited. If there is a gap of more than three months, during which there is no underpayment of holiday pay, then an employee cannot argue that a further underpayment forms part of the same series of deductions. Furthermore, The Deductions from Wages (Limitation) Regulations 2014 were brought into force on the 1st July 2015 and limit claims for deductions from wages to two years from the date of the deduction.

41. Defined Benefit Pension schemes

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a “final salary” scheme) for service up to 31 March 2014 and on revalued average salary (a “career average” scheme) for service from 1 April 2014 onwards.

At 31 March 2015 the council’s principal pension arrangement for its employees was the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer’s contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2014, and at that date showed a funding level of 78% (assets of £5.0bn against accrued liabilities of about £6.4bn). The weighted average duration of the liabilities of the Fund as a whole is 18 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

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

These other arrangements relate to:

Teachers

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

Health workers

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

Government and risk management

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

Lancashire County Pension Fund

Governance

Management of the Fund is vested in Lancashire County Council as Administering Authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2014, which showed a shortfall of assets against liabilities of £1.38 billion as at that date, equivalent to a funding level of 78%. The fund's employers are paying additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the council's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

Risks and Investment Strategy

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

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

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

Interest rate risk

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

Currency risk

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

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risks

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

Other risks

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

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

Amendments, curtailments and settlements

The provisions of the Fund were amended with effect from 1 April 2014. As explained above for service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

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

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

<u>Schemes for teachers and transferred NHS staff</u>

Governance

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

Funding the liabilities

Contributions to the arrangements are set by the government for these Teachers and NHS staff pension schemes, having taken advice from the government actuary, so no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the council is responsible.

Only this additional pensions to retired teachers' part of the liability which directly falls to the council is recognised within the council's balance sheet and these liabilities are shown under teachers' pension scheme figures within the tables below. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2014/15	2013/14	2014/15	2013/14
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2014/15	2013/14	2014/15	2013/14
	£m	£m	£m	£m
Cost of Services:				
Current service cost	73.0	87.7	-	-
Past service cost	0.1	0.2	-	-
Curtailment costs	12.9	0.8	-	-
Admin Expenses	1.5	1.4	-	-
Financing and Investment Income and Expenditure				
Net Interest Expense	31.8	39.5	5.8	5.3
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**119.3**	**129.6**	**5.8**	**5.3**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Re-measurement of the net defined benefit liability, comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(172.3)	(4.5)	-	-
Experience (gains)/losses on liabilities	-	(45.5)	-	1.2
Actuarial (gains)/losses arising from changes in financial assumptions	463.8	(232.8)	10.4	(7.9)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	13.1	-	2.6
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**410.7**	**(140.1)**	**16.2**	**1.2**
Movement in Reserves Statement				
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	119.3	129.6	5.8	5.3
Actual amount charged against the general fund balance for pensions in the year				
Employers contributions payable to the scheme	82.9	71.9	10.9	11.2

Investment risks

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

Other risks

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

Transactions relating to Retirement Benefits

We recognised the cost of retirement benefits in the surplus/deficit on continuing operations in the Comprehensive Income and Expenditure Statement, when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the International Accounting Standard 19 (IAS 19) cost of retirement benefits is reversed out in the Movement in Reserve Statement against the County Fund balance.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

In 2014/15 we paid £45.9m to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£45.9m and 14.1% in 2013/14). We also paid £0.5m in 2014/15 for NHS Public Health Staff transferred across from NHS from 1 April 2013 which represents 14% of pensionable pay (£0.5m and 14% in 2013/14)

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2014/15 these amounted to £8.4m, representing 2.6% of pensionable pay (£8.5m and 2.6% in 2013/14).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a re-measurement of the net defined liability loss of £301.9m (£273.8m gain in 2013/14) were included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss £478.3m.

Assets and liabilities in relation to Retirement Benefits

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

Lancashire County Pension Fund	**2014/15**	**2013/14**
	£m	**£m**
Opening balance as at 1 April	**2,093.0**	**2,009.1**
Re-measurement (assets)	172.3	4.5
Interest on plan assets	92.0	84.3
Admin expenses	(1.5)	(1.4)
Employer Contributions	82.9	71.9
Contributions from scheme participants	22.5	22.2
Benefits/Transfers paid	(107.9)	(97.6)
Closing balance as at 31 March	**2,353.3**	**2,093.0**

Reconciliation of present value of the scheme liabilities:

	Funded liabilities:	**Unfunded liabilities:**
	Lancashire County Pension Fund	**Teachers' Pension Scheme**

	2014/15	2013/14	2014/15	2013/14
	£m	£m	£m	£m
Opening balance as at 1 April	**(2,858.0)**	**(2,986.1)**	**(140.0)**	**(150.1)**
Current service cost	(73.0)	(87.7)	-	-
Interest on pension liabilities	(123.9)	(123.8)	(5.8)	(5.3)
Contributions from scheme participants	(22.5)	(22.2)	-	-
Benefits/Transfers paid	107.8	97.6	10.9	11.2
Curtailment cost	(12.9)	(1.3)	-	-
Gain/loss from settlements	-	0.5	-	-
Past service cost	(0.1)	(0.2)	-	-
Re-measurement gains and (losses)				
Experience gains/(losses) on liabilities	-	45.5	-	(1.2)
Actuarial gains/(losses) arising from changes in financial assumptions	(463.8)	232.8	(10.4)	7.9
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(13.1)	-	(2.6)
Closing balance as at 31 March	**(3,446.4)**	**(2,858.0)**	**(145.3)**	**(140.1)**

Local Government Pension Scheme assets comprised:

Fair value of scheme assets	**31/03/2015**	**31/03/2014**
	£m	**£m**

Fair value of scheme assets	31/03/2015 £m	31/03/2014 £m
Cash and cash equivalents	**114.0**	**36.4**
Equity instruments:		
By Industry		
Consumer	260.2	269.5
Manufacturing	144.8	166.6
Energy and utilities	52.6	84.9
Financial institutions	139.5	154.4
Health and care	80.0	94.4
Information technology	133.1	138.9
Miscellaneous	-	5.7
Sub-total equity	**810.2**	**914.4**
Bonds:		
By Sector		
Corporate	32.7	192.8
Government	73.9	64.2
Sub-total bonds	**106.6**	**257.0**
Property:		
By Type		
Retail	95.7	78.7
Commercial	125.9	92.5
Sub-total property	**221.6**	**171.2**
Private equity:		
UK	59.1	52.6
Overseas	83.7	57.5
Sub-total private equity	**142.8**	**110.1**
Other investment funds:		
Infrastructure	131.0	113.9
Property	17.2	10.5
Miscellaneous	810.4	479.5
Sub-total other investment funds	**958.6**	**603.9**
Total assets	**2,353.8**	**2,093.0**

Scheme history

The amounts included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
<u>Present value of scheme liabilities</u>					
Local Government Pensions Scheme	(2,372.0)	(2,555.4)	(2,986.1)	(2,858.0)	(3,446.4)
Teachers' Pensions Scheme	(136.2)	(137.4)	(150.1)	(140.1)	(145.4)
Fair value of assets in the Lancashire County Pension Fund	**1,743.0**	**1,753.2**	**2,009.1**	**2,093.0**	**2,353.6**
<u>Surplus/(deficit) in scheme</u>					
Lancashire County Pension Fund	(629.0)	(802.1)	(977.0)	(765.0)	(1,092.8)
Teachers' Pensions Scheme	(136.2)	(137.4)	(150.1)	(140.1)	(145.4)
Total	**(765.2)**	**(939.5)**	**(1,127.1)**	**(905.1)**	**(1,238.2)**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £1,238.2m in 2014/15 has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in net assets of £858.2m.

However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2016 is £52.1m. Expected contributions for the Teachers and Health Workers in the year to 31 March 2016 are £40.4m and £0.4m respectively.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2015. The principal assumptions used by the actuary have been as follows:

	2014/15	2013/14

	2014/15	2013/14
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.5%	7.00%
Bonds	2.4%	4.08%
Other	Dependent on type of asset	Dependent on type of asset
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	22.9 years	22.8 years
Women	25.4 years	25.3 years
Longevity at 65 for future pensioners:		
Men	25.1 years	25.0 years
Women	27.8 years	27.7 years
Rate of inflation (CPI)	2.00%	2.40%
Rate of increase in salaries	3.50%	3.90%
Rate of increase in pensions	2.00%	2.40%
Rate for discounting scheme liabilities	3.20%	4.40%

The rate of return is not applicable to the Teachers' Pension Scheme since it has no assets to cover its liabilities. The Lancashire County Pension Fund's assets consist of the following categories:

	31/03/2015	31/03/2014
	%	%
Equity investments	49.2	57.7
Bonds	4.5	12.3
Other assets	46.3	30.0
	100.0	**100.0**

Sensitivity analysis

The methods used to carry out the sensitivity analyses presented above for the material assumptions are the same as those the council has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£m	£m
Longevity (increase or decrease in 1 year)	67.47	(67.47)
Rate of inflation (increase or decrease by 1%)	624.74	(624.74)
Rate of increase in salaries (increase or decrease by 1%)	139.81	(139.81)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(613.62)	613.62

Other funds

Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area. The capital accounts in the table below show the value of the investment money that has been bequeathed.

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes.

The revenue accounts record the day-to-day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Adult Services, Health & Wellbeing 2014/15 £000s	**Children & Young People 2014/15 £000s**	**Other 2014/15 £000s**	**Total 2014/15 £000s**	**Total 2013/14 £000s**
Capital Accounts					
Balances at 1 April	(3.5)	(196.4)	(0.8)	(200.7)	(198.2)
Net Movement in funds	(0.3)	(18.2)	-	(18.5)	(2.5)
Balances at 31 March	**(3.8)**	**(214.6)**	**(0.8)**	**(219.2)**	**(200.7)**
Revenue Accounts					
Balances at 1 April	(6.7)	(62.8)	(19.9)	(89.4)	(77.2)
Income received	-	(4.9)	(15.5)	(20.4)	(23.0)
Less payments during the year	-	-	11.0	11.0	7.7
Balances at 31 March	**(6.7)**	**(67.7)**	**(24.4)**	**(98.8)**	**(92.5)**
Aggregate Balances at 31 March (Capital Revenue)	**(10.5)**	**(282.3)**	**(25.2)**	**(318.0)**	**(293.2)**

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Lancashire County Pension Fund

Accounts
2014 / 2015

Accounts of the Fund

Responsibilities for the statement of accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Section 151 officer, who is also the Section 151 officer to the Pension Fund;

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

The responsibilities of the Section 151 officer to the Pension Fund

The Section 151 officer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Section 151 officer to the Pension Fund has:

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

In addition, the Section 151 officer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2015 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Abigail Leech ACA

Acting Section 151 Officer

28th September 2015

Annual Governance Statement 2014/15

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2015 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 153,203 members across 218 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework *"Delivering Good Governance in Local Government"*. The code is available from the County Council's website at the following link

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2014.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery

- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. During 2014/15 the County Treasurer, as the County Council's Chief Finance Officer, was separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority. Following a restructure of the County Council's management from 1st April 2015 the functions of Chief Finance Officer have passed to the Director of Financial Resources while the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2014/15 were:

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;

- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.

- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.

- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.

- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;

- To embed the processes associated with the Fund's risk register in the management of the Fund.

- To review the transparency and scale of charges made by the County Council for services provided to the Fund.

- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.

- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved a formalisation of the Fund's overall arrangements for the management of the different categories of risk to which it is exposed.

During the Year changes were made to the Fund's overall governance arrangements to accommodate the creation of the new statutory Local Pension Board as an oversight body. This resulted in the discontinuation of the Pension Fund Administration Sub Committee, which oversaw a range of administration related matters.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor (from 1st April 2015 the Director of Finance, Governance and Public Services) as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Chief Internal Auditor (from 1st April 2015 the Head of Service – Internal Audit) was during the year managerially accountable to the County Treasurer, and from 1st April 2015 will be managerially accountable to the Director of Legal and Democratic Services. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Chief Internal Auditor's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Chief Auditor's Annual Report for 2014/15 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2015/16

The following specific actions are proposed for completion during 2014/15.

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pension Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

5 June 2015

County Councillor K Ellard
Chair of the Pension Fund Committee

George Graham
Director
Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council.

Lancashire County Pension Fund
Fund account

	Note	2014/15 £m	2013/14 £m
Dealing with members, employers and others directly involved in the Fund			
Contributions	6	238.0	214.0
Transfers in from other pension funds	7	4.8	7.1
		242.8	221.1
Benefits	8	(240.2)	(221.1)
Payments to and on account of leavers	9	(100.1)	(15.3)
Management expenses	10	(35.4)	*(31.3)
		(375.7)	*(267.7)
Net withdrawals from dealings with members		**(132.9)**	***(46.6)**
Returns on investments			
Investment income	11	90.7	105.3
Profit and losses on disposal of investments and changes in the market value of investments	14	684.7	*118.4
Net return on investments		**775.4**	***223.7**
Net increase / (decrease) in the net assets available for benefits during the year		**642.5**	**177.1**

*Prior year restated to include all investment fees directly incurred by the Fund, including those charged on pooled fund investments previously accounted for within the valuation of investments.

Lancashire County Pension Fund

Net assets statement

as at 31 March 2015

	Note	31/03/15 £m	31/03/14 £m
Investment assets	14	6,383.1	4,877.3
Cash deposits	14	60.0	315.5
		6,443.1	5,192.8
Investment liabilities	14	(629.6)	(21.3)
Current assets	20	28.1	28.3
Current liabilities	21	(10.9)	(11.7)
Net assets of the Fund available to fund benefits at the period end		**5,830.7**	**5,188.1**

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended.

Abigail Leech ACA

Acting Section 151 Officer

County Councillor Terry Brown

Chair of the Audit and Governance Committee

Notes to the financial statements

1. Pension Fund operations and membership

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

The published accounts show that in 2014/15 cash inflows during the year consisted of £333.5 million and cash outflows were £375.7 million, representing a net cash outflow of £42.2 million (compared with an inflow of £58.7 million in the previous year). Benefits payable amounted to £240.2 million and were partially offset by net investment income of £90.7 million (including £11.7 million accrued dividends); contributions of £238 million and transfers in of £4.8 million. A bulk transfer out of £89.6 million in relation to the transfer of employment from the Probation Trust to Greater Manchester Pension Fund contributed to the overall cash outflow, as did the temporary investment of cash in liquid bond funds and directly held investment grade bonds to commit to investments in line with the Fund's investment strategy.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

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

The Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the Fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at Your Pension Service - Lancashire Fund Information

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

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

There are 320 employer organisations (2013/14: 297 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 218 have active members (2013/14: 210) as detailed below:

Lancashire County Pension Fund	31/03/15	31/03/14
Total number of employers	320	297
Number of employers with active members	218	210
Number of active scheme members		
County Council	27,405	27,501
Other employers	26,774	27,243
Total	54,179	54,744
Number of pensioners		
County Council	21,765	21,068
Other employers	21,446	21,210
Total	43,211	42,278
Number of deferred pensioners		
County Council	29,148	28,058
Other employers	26,665	25,837
Total	55,813	53,895
Total membership	**153,203**	**150,917**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2015 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008	Service post 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2014/15 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 25 of these accounts.

3. Accounting policies

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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

3.1.2 Transfers to and from other schemes

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

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

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

3.1.3 Investment income

3.1.3.1 Interest income

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

3.1.3.2 Dividend income

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

3.1.3.3 Distribution from pooled funds

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

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

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

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 Movement in the net market value of investments

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

3.2 Fund account – expense items

3.2.1 Benefits payable

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

3.2.2 Taxation

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

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs". The comparative figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance.

3.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the Fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

3.2.5 Oversight and governance expenses

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

3.2.6 Investment management expenses
All investment management expenses are accounted for on an accruals basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2014/15, £2.3m of fees is based on such estimates (2013/14: £2.8m).

The costs of the council's in-house fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the Fund.

3.3 Net assets statement

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

The values of investments as shown in the net assets statement have been determined as follows:

3.3.2 Market-quoted investments
The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

3.3.3 Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

3.3.4 Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

3.3.5 Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.3.6 Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

3.3.7 Freehold and leasehold properties
The properties were valued at open market value at 31 March 2015 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

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

3.3.9 Valuation of investments
Investments are shown at their fair value as at 31 March 2015. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

3.3.11 Derivatives
The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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

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

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

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

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

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

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

As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 25).

3.3.17 Additional voluntary contributions
Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending

Investments lent under securities lending arrangements continue to be recognised in the net assets statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation.

4. Critical judgements in applying accounting policies

4.1 Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

4.2 Pension Fund liability

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ

		from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £601.2m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,236.0m. There is a risk that these investments might be under or overstated in the accounts.
Bonds secured on affordable housing assets.	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £42.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations.	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £43m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £170m.

6. Contributions receivable

By category	2014/15 £m	2013/14 £m
Employers	183.2	160.0
Members	54.8	54.0
	238.0	214.0

By authority

	2014/15 £m	2013/14 £m
County Council	102.1	91.3
Scheduled Bodies	115.4	104.4
Admitted Bodies	20.5	18.3
	238.0	214.0

By type	2014/15 £m	2013/14 £m
Employee's normal contributions	54.8	54.0
Employer's contributions*	171.7	154.6
Employer's augmentation contributions**	11.5	5.4
	238.0	214.0

* 2014/15 employer's contributions include £47.3m in respect of deficit contributions.

**Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2014/15, £0.4m is voluntary and additional regular contributions. (2013/14: £0.4m)

7. Transfers in from other Pension Funds

	2014/15 £m	2013/14 £m
Individual transfers in from other schemes	4.8	7.1
	4.8	7.1

8. Benefits payable

By category	2014/15 £m	2013/14 £m
Pensions	192.0	183.9
Lump sum retirement benefits	41.7	33.2
Lump sum death benefits	6.5	4.0
	240.2	221.1

By authority	2014/15 £m	2013/14 £m
County Council	106.3	93.4
Scheduled Bodies	118.5	112.9
Admitted Bodies	15.4	14.8
	240.2	221.1

9. Payments to and on account of leavers

	2014/15 £m	2013/14 £m
Refunds to members leaving service	0.2	0.0
Individual transfers	10.3	12.9
Group transfers	89.6	2.4
	100.1	15.3

As part of a Ministry of Justice review, Greater Manchester Pension Fund (GMPF) was chosen to administer the Local Government Pension Scheme for the National Probation Service from 1st June 2014. This resulted in a bulk transfer being made to transfer Lancashire Probation Trust's share of assets to the GMPF.

10. Management expenses

	2014/15 £m	2013/14 £m
Administrative costs	3.5	3.6
Investment management expenses	29.2	*25.1
Custody fees	0.2	0.2
Oversight and governance costs	2.5	2.4
	35.4	*31.3

*Prior year restated in accordance with CIPFA guidance on accounting for management expenses. Investment and management expenses include £15.5m of investment fees directly incurred by the fund and previously accounted for within the valuation of investments.

Investment management expenses include £1m (2013/14: £1.5m) in respect of performance-related fees paid/payable to the Fund's investment managers. Investment management expenses also include £1.8m in respect of transaction costs (2013/14: £1.4m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. Investment income

	2014/15 £m	2013/14 £m
Fixed interest securities	2.9	31.5
Equity dividends	40.6	36.8
Index linked securities	0.0	1.6
Pooled investment vehicles	15.0	6.4
Net rents from properties	24.3	23.5
Interest on cash deposits	0.5	3.2
Other	7.4	2.3
	90.7	105.3

12. Property income

	2014/15 £m	2013/14 £m
Rental income	29.7	27.4
Direct operating expenses	(5.4)	(3.9)
Net income	24.3	23.5

13. Stock lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2014/15 was £2.2m (2013/14: £1.2m)

Securities on loan at the 31st March 2015 were £86m (2014: £131.7m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £86m of equities (2014: £129.9m equities and £1.8m bonds).

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation. The collateral is non cash and totalled £92m of equities (2014: £139.8m bonds).

14. Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	2,639.1	(2,428.3)	684.7	5,739.0
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	5,192.8				6,443.1
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

	Market value as at 1 April 2013 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2014 £m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investment vehicles	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Direct property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
Portfolio value	**4,989.0**				**5,171.5**

Investments analysed by fund manager

		31/3/15 £m	%	31/3/14 £m	%
Public equity					
External managers	Baillie Gifford	734.1	12.6%	793.0	15.3%
	MFS	334.2	5.7%	269.6	5.2%
	Morgan Stanley	283.5	4.9%	239.4	4.6%
	NGAM	230.8	4.0%	285.8	5.5%
	Robeco	448.5	7.7%	366.7	7.1%
UCITS funds	AGF	266.9	4.6%	239.9	4.6%
	MFG (Magellan)	238.1	4.1%	197.5	3.8%
		2,536.1	**43.6%**	**2,391.9**	**46.1%**
Private equity					
External managers	Capital Dynamics	269.9	4.7%	221.5	4.3%
Direct	Standard Life	7.6	0.1%	0.0	0.0%
		277.5	**4.8%**	**221.5**	**4.3%**
Long-term credit investments					
Senior secured loans	Ares Institutional	123.2	2.1%	106.5	2.1%
	Babson	72.8	1.3%	62.9	1.2%
	Hayfin	44.2	0.8%	20.4	0.4%
	Highbridge	57.1	1.0%	49.6	1.0%
	THL	55.8	1.0%	48.1	0.9%
Loans secured on real assets	Heylo Housing	42.6	0.7%	0.0	0.0%
	Prima	153.5	2.6%	0.0	0.0%
	Westmill	11.7	0.2%	11.9	0.2%
Emerging market debt	Bluebay	128.8	2.2%	81.7	1.6%
	HSBC	58.2	1.0%	47.0	0.9%
	Investec	83.5	1.4%	71.0	1.4%
	Pictet	129.6	2.2%	108.8	2.1%
Credit opportunities	CRC- Christofferson Robb & Co	34.4	0.6%	2.2	0.0%
	EQT	44.3	0.8%	20.0	0.4%
	MFO King Street	54.8	1.0%	47.0	0.9%
	Monarch	53.8	0.9%	48.5	0.9%
	Neuberger Berman	58.8	1.0%	35.5	0.7%
	Pimco Bravo	28.9	0.5%	8.5	0.2%
		1,236.0	**21.3%**	**769.6**	**14.9%**

		31/3/15 £m	%	31/3/14 £m	%
Liquid credit (cash and bonds)					
External managers	Babson	226.9	3.9%	60.0	1.2%
	ING	181.9	3.1%	206.6	4.0%
	Janus	0.0	0.0%	120.1	2.3%
	JP Morgan	0.0	0.0%	120.0	2.3%
	In-house	457.0	7.9%	514.6	10.0%
		865.8	**14.9%**	**1,021.3**	**19.8%**
Infrastructure					
Direct	Arclight Energy	35.9	0.6%	30.1	0.6%
	Capital Dynamics Cape Byron	65.6	1.1%	54.1	1.0%
	Capital Dynamics Clean Energy	32.9	0.6%	25.5	0.5%
	Capital Dynamics Red Rose	92.8	1.6%	93.2	1.8%
	Capital Dynamics US Solar	0.0	0.0%	14.3	0.3%
	EQT Infrastructure	13.1	0.2%	12.3	0.2%
	Global Infrastructure Partners	15.9	0.3%	17.2	0.3%
	Highstar Capital	33.4	0.6%	19.3	0.4%
	Icon Infrastructure	29.8	0.5%	25.4	0.5%
	ISQ Global Infrastructure	4.3	0.1%	0.0	0.0%
		323.7	**5.6%**	**291.4**	**5.7%**
Property					
Direct	Knight Frank	531.4	9.1%	450.5	8.7%
Indirect	Gatefold Hayes	12.9	0.2%	0.0	0.0%
	M&G Europe fund	30.1	0.5%	25.3	0.5%
		574.4	**9.8%**	**475.8**	**9.2%**
Portfolio Value		**5,813.5**	**100.0%**	**5,171.5**	**100.0%**

	31/03/15 £m	31/03/14 £m
Fixed interest securities		
UK corporate bonds quoted	94.2	76.0
Overseas corporate bonds quoted	54.6	157.0
	148.8	233.0

	31/03/15 £m	31/03/14 £m
Equities		
UK quoted	212.3	231.3
Overseas quoted	1,788.4	1,689.8
	2,000.7	1,921.1

	31/03/15 £m	31/03/14 £m
Index linked securities		
UK quoted	317.9	0.0
	317.9	0.0

	31/03/15 £m	31/03/14 £m
Pooled investment vehicles		
UK managed funds:		
Fixed income funds	58.2	47.0
Venture capital	278.5	264.8
Property funds	12.9	0.0
Overseas managed funds:		
Equity funds	505.0	644.1
Fixed income funds	1,443.8	970.3
Cash funds	0.5	0.0
Property funds	30.1	25.1
Venture capital	411.2	287.6
	2,740.2	2,238.9

	31/03/15 £m	31/03/14 £m
Properties		
UK – freehold	460.6	389.8
UK – long leasehold	70.8	60.7
	531.4	450.5

Property holdings

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

	31/03/15 £m	31/03/14 £m
Balance as at start of the year	450.5	434.9
Additions:		
Purchases	57.3	15.0
Construction	2.4	0.0
Disposals	(26.1)	(43.3)
Net gain/loss on fair value	47.3	43.9
Balance as at the end of the year	531.4	450.5

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2014/15 £m	2013/14 £m
Leases expiring in the following year	4.0	2.0
Leases expiring in two to five years	13.1	11.9
Leases expiring after five years	13.5	12.4
Total	30.6	26.3

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

Analysis of derivatives

Objectives and policies for holding derivatives
Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency
In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	Currency bought*	Local value m	Currency sold*	Local value m	Asset value £m	Liability value £m
Up to one month	GBP	300.0	USD	(442.9)	300.0	(298.4)
Up to one month	USD	445.9	GBP	(300.0)	300.4	(300.0)
One to six months	AUD	3.5	USD	(2.8)	1.8	(1.9)
One to six months	USD	30.4	CHF	(28.7)	20.5	(20.1)
One to six months	USD	5.3	AUD	(5.9)	3.6	(3.0)
One to six months	CHF	8.7	USD	(9.2)	6.1	(6.2)
Open forward currency contracts at 31 March 2015					632.4	(629.6)
Net forward currency contracts at 31 March 2015						2.8
Prior year comparative					£m	£m
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1

*Currencies are referred to above using International Standards Organisation codes.
GBP – British Pound, USD – US Dollar, AUD – Australian Dollar, CHF – Swiss Franc

	31/03/15 £m	31/03/14 £m
Cash deposits		
Sterling	35.0	148.0
Foreign currency	25.0	167.5
	60.0	315.5

15. Financial instruments classification

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

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31/03/15	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	148.8	-	-
Equities	2,000.7	-	-
Index linked securities	317.9	-	-
Pooled investment vehicles	2,740.2	-	-
Derivative contracts	632.4	-	-
Cash deposits	-	60.0	-
Investment accruals	11.7	-	-
Debtors	-	28.1	-
Total financial assets	**5,851.7**	**88.1**	**-**
Financial liabilities			
Derivative contracts	629.6	-	-
Creditors	-	-	10.9
Total financial liabilities	**629.6**	**-**	**10.9**

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	2,238.9	-	-
Derivative contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total financial assets	**4,426.8**	**343.8**	**-**
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total financial liabilities	**21.3**	**-**	**11.7**

16. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £634.1m (2013/14: £59m)

17. Financial instruments – valuation

17.1 Valuation of financial instruments carried at fair value

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

17.1.1 Level 1

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

17.1.2 Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

17.1.3 Level 3

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

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

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

The following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31/03/15	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets				
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	-	-	629.6
Total financial liabilities	**629.6**			**629.6**

31/03/14	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total financial assets	**3,314.6**	**179.9**	**929.9**	**4,424.4**
Financial liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total financial liabilities	**21.3**			**21.3**

18. Nature and extent of risks arising from financial instruments

18.1 Risk and risk management

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

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

18.2 Market risk

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

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

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

18.3 Other price risk

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

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

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

18.3.1 Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2014/15 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.0%
Total equities	9.6%
Alternatives	9.6%
Total property	2.1%

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

Asset type	31/03/15 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

Asset type	31/03/14 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,250.3	4.8%	1,310.3	1,190.3
Total equities	2,826.5	11.9%	3,162.8	2,490.1
Alternatives	291.2	3.8%	302.3	280.1
Total property	475.5	2.7%	488.3	462.7
Total assets available to pay benefits	**4,843.5**		**5,263.7**	**4,423.2**

18.4 Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/15 £m	31/03/14 £m
Cash and cash equivalents	60.0	315.5
Fixed interest securities	1,650.8	1,250.3
Total	**1,710.8**	**1,565.8**

18.4.1 Interest rate risk - sensitivity analysis
The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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

Asset type		Change in year in net assets available to pay benefits	
	31/03/15 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

Asset type		Change in year in net assets available to pay benefits	
	31/03/14 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in assets available	**1,565.8**	**15.6**	**(15.6)**

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:

Currency exposure – asset type	31/03/15 £m	31/03/14 £m
Overseas bonds (including index linked)	1,498.3	1,127.3
Overseas equities	2,513.8	2,466.3
Overseas alternatives	191.4	155.2
Overseas property	30.1	25.1
Total overseas assets	**4,233.6**	**3,773.9**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.2% (as measured by one standard deviation).

A 6.2% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (previous year = 6%).

A 6.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31/03/15 £m	+6.2% £m	-6.2% £m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31/03/14 £m	+6.0% £m	-6.0% £m
Overseas bonds (including index linked)	1,127.3	1,194.9	1,059.7
Overseas equities	2,466.3	2,614.2	2,318.3
Overseas alternatives	155.2	164.5	145.9
Overseas property	25.1	26.6	23.6
Total change in assets available	**3,773.9**	**4,000.2**	**3,547.5**

18.6 Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2015 was £60m (31 March 2014: £315.5m.) This was held with the following institutions:

Summary	Rating	31/03/15	31/03/14
Bank deposit accounts		**£m**	**£m**
Ulster bank	Baa3	0.0	5.0
Northern Trust	A2	30.8	248.0
Svenska Handelsbanken	Aa3	30.0	61.4
Bank current accounts			
Natwest account	Baa2	(0.8)	1.1
Total		**60.0**	**315.5**

18.7 Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2015 are due within the one year.

19. Additional voluntary contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2014 to 31 March 2015 for Prudential and 1 September 2013 to 31 August 2014 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.1	19.8	20.9
Income (incl. contributions, bonuses, interest & transfers in)	0.0	5.4	5.4
Expenditure (incl. benefits, transfers out & change in market value)	(0.1)	(4.1)	(4.2)
Value at the end of the year	**1.0**	**21.1**	**22.1**

20. Current assets

	31/03/15 £m	31/03/14 £m
Contributions due - employers	14.4	14.4
Contributions due - members	4.6	4.4
Debtors - bodies external to general government	9.1	9.5
	28.1	28.3

Analysis of debtors	31/03/15 £m	31/03/14 £m
Other local authorities	15.6	15.5
NHS bodies	0.0	0.1
Public corporations and trading funds	0.0	0.1
Other entities and individuals	12.5	12.6
	28.1	28.3

21. Current liabilities

	31/03/15 £m	31/03/14 £m
Unpaid benefits	0.1	0.6
Accrued expenses	10.8	11.1
	10.9	11.7

Analysis of creditors	**31/03/15 £m**	**31/03/14 £m**
Other local authorities	4.2	4.0
Other entities and individuals	6.7	7.7
	10.9	11.7

22. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £529.7m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £304.1m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £11.3m at 31st March 2015. These amounts are expected to be drawn down over the next 15 months based on valuation certificates.

The commitment on indirect property of £20.7m at 31st March 2015 relates to a property under construction held in an indirect fund. This amount is expected to be drawn down over the next 15 months based on valuation certificates for a scheduled completion in May 2016.

23. Related Party Transactions

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

- At 31 March 2015, Damon Lawrenson, CPFA, was Interim Director of Financial Resources to the Pension Fund and Lancashire County Council.
- The Pension Fund includes 136 scheduled and 184 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2014/15. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

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

The council incurred costs of £4.5m (2013/14: £4.2m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £79.5m to the fund in 2014/15 (2013/14: £69.1m). All monies owing to and due from the Fund were paid in year.

23.2 Key management personnel
Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24.

This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

24. Funding arrangements

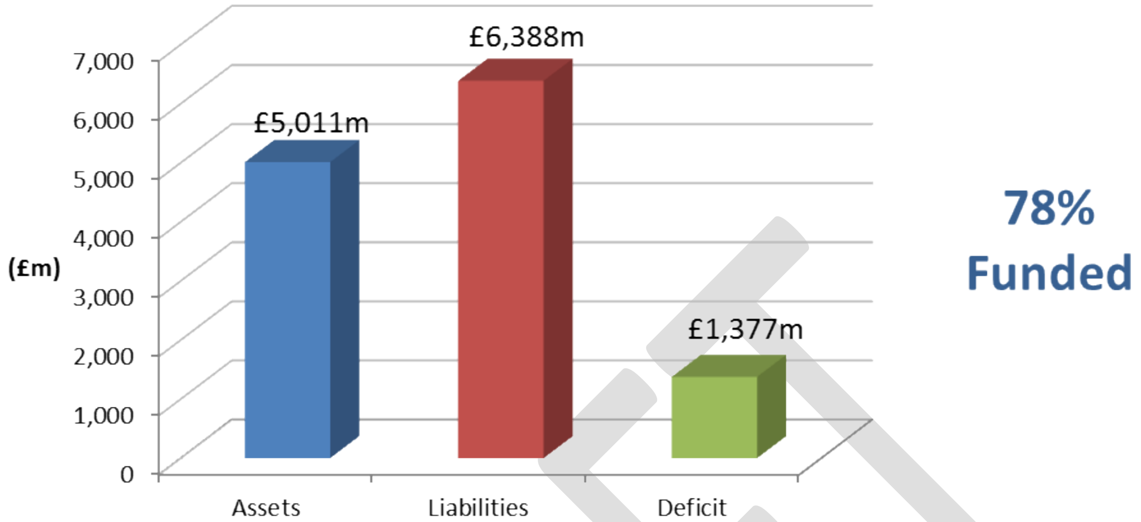
Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement.

Your Pension Service - Lancashire Fund Information

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

25. Actuarial present value of promised retirement benefits

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). In addition, the expected long-term rate of CPI inflation fell during the year, resulting in a lower assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £6,917m. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by approximately £1,251m. Adding interest over the year increases the liabilities by approximately £309m, and allowing for net benefits accrued/paid over the period (including allowance for the Probation transfer) decreases the liabilities by approximately £107m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £8,370m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2015

26. Events after the net assets statement date

On 2nd July 2015 the Pension Fund Committee of Lancashire County Council and the Board of the London Pension Fund Authority each separately agreed to seek regulatory approvals for the creation of an Asset and Liability Management Partnership. This partnership, which is a response to the Government's reform agenda for the Local Government Pension Scheme, has the potential to fundamentally change the way in which the two Funds are managed and achieve significant reductions in the cost of running the Funds.

The Partnership will oversee the creation of a pool of investment assets (made up of the assets of the two funds) which will be jointly invested, as well as a pension services organisation which will carry out both investment management and pension administration functions. Both the asset pool and the investment management activities will be regulated by the Financial Conduct Authority.

The Pension Fund Committee of Lancashire County Council and the Board of the LPFA will each make a final decision on the Partnership based on a full business plan at simultaneous meetings during November 2015.

Glossary

Accounting policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Accumulated Absences Account
The accumulated absences account absorbs the differences that would otherwise arise on the County Fund balance from accruing for compensated absences earned but not taken in the year,

Actuary
An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses
A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Administrative expenses (IAS 19)
The administration costs of running the pension fund

Agency services
Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation
An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation
A contribution to or from a financial reserve.

Audit qualification
A comment made by the auditors if they are not completely satisfied with the accounts.

Budget
A statement which reflects the county council's policies in financial terms and which sets out its spending plans for a given period.

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors
Amounts owed by the county council for spending on buying or improving assets.

Capital expenditure
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads.

Capital funding
Money to support spending on capital projects.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capital Grants Unapplied Account
A reserve holding capital grants and contributions which either never had conditions that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the Comprehensive Income and Expenditure Statement and transferred into Capital Grants Unapplied via the Movement in Reserves Statement (MiRS).

Capital investment
Money invested in capital projects.

Capital projects
Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital Receipts Reserve
A usable reserve on the Balance Sheet holding recognised capital receipts. Capital receipts are credited to the Comprehensive Income and Expenditure Statement and then reversed through the Movement in Reserves Statement (MiRS) into the Capital Receipts Reserve. When used for financing, receipts are debited from this reserve into the capital adjustment account.

Capital value
Amount spent on capital.

Capitalise
To treat as capital expenditure rather than revenue expenditure.

Cash equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions
Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items
Central overheads e.g. payroll costs.

CIPFA
The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund
The system used by district and borough councils to keep council tax separate from their own accounts. The amount in the fund each year is fed into the council tax calculation for the following year.

Collection Fund Adjustment Account
The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure

Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the County Fund from the Collection Fund.

Construction contract
A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities
Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

County Fund
The main revenue fund used to provide county council services. Income to the fund consists of the county precept on the collection funds, government grants and other income. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

Creditors
Amounts owed by the county council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)
The increase in the county council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption
Where a debt is repaid early.

Debtors
Amounts owed to the county council which had not been paid by the date of the balance sheet.

Deferred liabilities
Debts to be settled sometime in the future, but the actual date is not certain.

Defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)
The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)
An organisation set up within the county council to carry out certain activities subject to competitive tendering.

Employer's pension contributions
Payments to the pension scheme made by the county council for current employees.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value
The amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance lease
A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

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

Financial year
The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges
Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument
A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

Global custodian
A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

Government grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost
The cost of an asset at the time it was bought.

Impairment
Where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Infrastructure assets
Highways fixed assets – for example, roads and bridges.

Intangible assets
Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

Interest cost (pensions)
The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Investing activities
The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment property
Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

Market value
The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision
The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate (NDR)
The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more that the retail price index. Rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value
The amount at which fixed assets are included in the balance sheet (i.e. their historical cost or current value less the cumulative amounts provided for depreciation).

Net nil trading position
This is where spending matches income.

Net pension liability
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nil consideration
Where no charge is made for an item.

Nominal value of a financial instrument
The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-distributed costs
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets
Assets which are not in use.

Operating lease
A lease where ownership of the goods remains with the company leasing them.

Operational assets
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Past service cost or gain (IAS 19)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to regulations.

Pension enhancements
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

Pooled investment vehicle
Where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

Precept
A charge made by one authority which is collected by another authority – for example, the council tax precept.

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)
A means of securing new assets and associated services in partnership with the private sector.

Projected unit method (Pensions)
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) The accrued benefits for members in service on the valuation date (accrued benefits are the benefits for service up to a given point in time, whether vested rights or not).

Provisions
Liabilities of uncertain timing or amount.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Realisable value
The amount for which an asset can be sold.

Reconciliation
The process of checking figures from different sources which should logically match up – for example, matching invoices paid against amounts banked.

REFCUS (Revenue Expenditure Funded from Capital Under Statute)
Capital expenditure which does not create or add to the value of an item of property, plant or equipment belonging to Lancashire County Council.

Related party
A person or organisation which has influence over another person or organisation.

Re-measurements – Assets (IAS 19)
The return on assets net of administration expenses and interest on income.

Re-measurements – Liabilities (IAS 19)
Re-measurement on liabilities that are subdivided into 'Experience gains (losses) on liabilities, gain (loss) on financial assumptions and gain (loss) on demographic assumption.

Reserves
Amounts set aside in one year’s accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value
The amount an asset can be sold for, less the cost of selling it.

Revenue account
An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue expenditure
The county council's day-to-day spending. This consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant
A general grant from central government to contribute towards the cost of providing services.

Reversed out
This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants
Government grants for a particular service – for example, the Standards Fund Grant.

Tangible assets
Assets which have a physical form – for example, buildings, furniture and equipment.

Transfers in/out
Transfers of money either into or out of the pension fund, from another pension fund.

Transfer value
A payment made by one pension fund to another when a scheme member changes schemes.

Useful life
The period which an asset is expected to be available for use.

Write down
This is where amounts are charged to the revenue account or offset against another balance sheet account.

Audit and Governance Committee
Meeting to be held on 28 September 2015

Electoral Division affected:
None

External Audit
Lancashire County Council Pension Fund Audit Findings Report 2014/15
(Appendix 'A' refers)

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

Executive Summary

The external auditor is required to report to you their audit findings prior to concluding their work. The report at Appendix 'A' covers the overall findings of the external auditor in relation to the audit of the annual accounts of the pension fund and their proposed opinion on those accounts.

Recommendation

The Committee is asked to:

(i) take note of the adjustments to the financial statements and the other issues raised by the auditor which are set out in the report.

(ii) approve the letter of representation on behalf of the Council before the auditor issues their opinion.

Background and Advice

Attached at Appendix ‘A’ is the external auditor's Audit findings Report following their audit of the accounts for Lancashire County Pension Fund for 2014/15. The report has been produced in accordance with the Audit Commission's statutory Code of Audit Practice for Local Government.

Karen Murray, Director at Grant Thornton, will be in attendance to present the report and address any questions from members.

Consultations

The report has been agreed with the Director – Lancashire County Pension Fund, and the Council's interim Section 151 Officer.

Implications:

This item has the following implications, as indicated:

Risk management

No significant additional risks have been identified.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

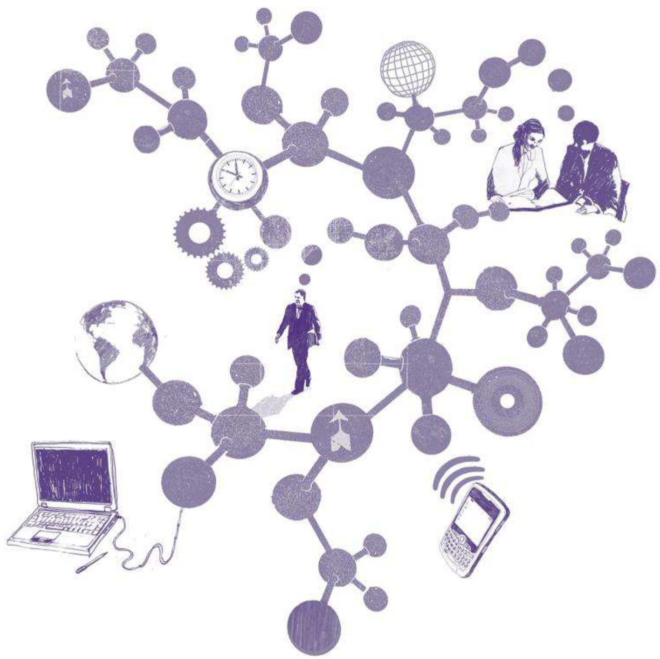
N/A

Appendix 'A'

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2015

15 September 2015



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28 September 2015

Dear Councillor Brown

Audit Findings for Lancashire County Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Lancashire County Pension Fund, the Audit and Governance Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray

Engagement lead

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Lancashire County Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015 and presented to the Audit & Governance Committee June 2015.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of final specialist partner review;
- obtaining and reviewing the final management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to improve the presentation of the financial statements, including a non adjusting post balance sheet event note to provide an update on the asset management and liability partnership proposal with London Pension Fund Authority.

The Fund have implemented the new guidance from CIPFA in relation to administration and management costs, building on the work already done to improve the transparency of Fund's reporting in this area.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Lancashire County Pension Fund, the Interim Director of Financial Resources and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and the additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, dated March 2015 and presented to the Audit and Governance Committee in June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to the Audit & Governance Committee in June 2015.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts; and
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts.

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report as set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	We carried out: • a review of accounting estimates, judgements and decisions made by management • testing of journal entries • a review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.
3.	**Level 3 Investments – Valuation is incorrect** Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Under ISA (UK&I) 315 this was identified as a significant risk as the valuations include significant judgemental matters. (Investment fair value measurements priced using inputs not based on observable market data)	We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the nature and basis of valuation of these investments. For a sample of individual investments, we tested valuations by obtaining and reviewing audited accounts at latest date and agreeing these to the fund manager reports at that date. We reviewed the reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.	Our audit work has not identified any issues in respect of the valuations applied to year end level 3 investments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment income **Investment purchases and sales**	Investment activity not valid. Investment income not accurate. (Accuracy) Investment activity not valid. Investment valuation not correct.	We have undertaken the following work in relation to these risks: • documented our understanding of processes and key controls over these transaction cycles • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out a detailed reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risks identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances • tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation; and • for direct property investments we agreed values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct. (Occurrence)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over recorded contributions • carried out controls testing over occurrence, completeness and accuracy of contributions • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained	Our audit work has not identified any significant issues in relation to the risk identified.
Benefit payments	Benefits improperly calculated/claims liability understated (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over benefit payments. • carried out controls testing over completeness, accuracy and occurrence of benefit payments, considering key controls • undertook attribute testing for a sample of new pensions into payment • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member data	Member data not correct. (Rights and Obligations)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out procedures and reviews sufficient to understand the Pension Fund's arrangements for gaining assurance over member data • carried out controls testing over annual/monthly reconciliations and verifications with individual members • sample tested changes to member data made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Contribution Income: normal contributions for both employee and employers is accounted for on an accruals basis. • Transfers to and from the scheme: Transfers are recognised when they are received / paid. • Investment Income: The Fund adopts several different recognition approaches dependent on the types of investment as disclosed within the statements.	• The revenue recognition policies of the Fund are appropriate and in line with the relevant accounting framework. • The application of the revenue recognition policies at the Fund is not considered complex, and our testing has not identified any inappropriate revenue recognition.	**Green**
Estimates and judgements	• Key estimates and judgements include : – investment valuation for unquoted, hard to value investments – pension fund actuarial valuations and settlements.	• The valuation of the Fund's hard-to-value investments have been substantively tested to gain assurance that it is not materially misstated • We have confirmed that the work of the actuary is in line with professional standards and regulation, and that they are a reliable source of estimation relating to the pension fund liabilities.	**Green**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	● **Green**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no non-trivial omissions in the financial statements. Management has added a non-adjusting post balance sheet event note to provide an update on the asset management and liability partnership proposal with London Pension Fund Authority.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed with the exception of key management personnel disclosures. However, this is due to a difference in interpretation of the CIPFA Code in this respect. • IAS 24 requires the inclusion of an extended disclosure note about the compensation of key management personnel. The CIPFA code includes a specific dispensation from this requirement, instead following the regulatory disclosure requirements around remuneration of members and staff. The Fund has chosen to follow the CIPFA example pension fund accounts which refer to this dispensation in the Pension Fund disclosure notes, (note 24), and cross references the reader to the Council's main financial statements where such regulatory disclosures are made. • In our view, this disclosure is not appropriate since the regulatory disclosures in the Council's main accounts include senior management personnel who are not involved in the management of the pension fund and will exclude some who are. Additionally, in the context of the separately published Pension Fund Annual Report, such cross referencing is not helpful. In our view the Fund should either make the full IAS24 disclosures within the pension fund accounts, or make the regulatory disclosures set out in the Code specific to those key management personnel involved in the Pension Fund. However we recognise that the position taken by the Fund is not inconsistent with the Code or CIPFA's guidance (in the form of the example pension fund accounts provided by them) and that following the management restructure for 2015/16 the expected disclosures will be made in future years.
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from all external fund managers and custodian for investment balances and requested management permission to send confirmation requests for bank and investment balances . This permission was granted and the requests were sent. All requests were returned with positive confirmation.
7.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investments, contributions, benefit payments and member data as set out on pages 10 and 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee.

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Administering Authority. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issue arose from our work. We identified a small number of areas where the Council's existing IT arrangements can be further developed. None of these are specific to the Pension Fund, and have been shared with the Interim Director of Financial Resources for information.

Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Presentation and Disclosure	Various		A number of minor presentational and disclosure issues were amended in the accounts.
NB: None of the presentation or disclosure issues impact on the Fund's reported outturn position.				

Section 3: Fees, non-audit services and independence

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit scale fee	34,169	34,169
IAS19 Protocol audit work	1,737	1,737
Total audit fees	**35,906**	**35,906**

There is no change in the audit fee as reported in the Audit Plan. The audit fee of £1,737 relates to providing assurance to other auditors under the IAS19 protocol, which has been approved by the Audit Commission and discussed with officers.

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion for inclusion in Lancashire County Council's statements

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

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

We have audited the pension fund financial statements of Lancashire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Lancashire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Interim Director of Financial Resources and auditor

As explained more fully in the Statement of responsibilities for the statement of accounts the Interim Director of Financial Resources is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Financial Resources; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Introduction to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the Introduction for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Chartered Accountants
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

28 September 2015

Appendix B: Audit opinion for inclusion in Pension Fund's Annual Report

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

Independent auditor's statement to the members of Lancashire County Council on the pension fund financial statements included in the pension fund annual report

We have examined the pension fund financial statements of Lancashire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.
This statement is made solely to the members of Lancashire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Director of Financial Resources and auditor
As explained more fully in the Responsibilities for the statement of accounts the Director of Financial Resources is responsible for the preparation of the Statement of Accounts of Lancashire County Council, which include the pension fund's financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of Management Structure, Foreword by the Chair of the Pension Fund Committee, Governance of the Fund, Administration of the Fund, Knowledge and Skills Framework, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion
In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Lancashire County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

28 September 2015

Audit and Governance Committee
Meeting to be held on 28 September 2015

Electoral Division affected:
ALL

Approval of the Lancashire County Pension Fund's Statement of Accounts 2014/15

(Appendix 'A' refers)

Contact for further information:
Abigail Leech, 01772 530808, Head of Corporate Finance, Financial Resources,
Abigail.Leech@lancashire.gov.uk

Executive Summary

The Lancashire County Pension fund is administered by Lancashire County Council and the accounts of the Pension Fund are published in the County Council's Statement of Accounts and also in the Annual Report of the Pension Fund.

The County Council has delegated the approval of the Council’s Statement of Accounts to the Audit and Governance Committee. The 2014/15 accounts should be approved on or before the 30 September 2015.

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

Recommendation

The Committee is requested to review and approve the Lancashire County Pension Fund's Statement of Accounts for 2014/15 and the Chair of the Committee is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

Under Government Regulations relating to the dates for the finalisation of Local Authorities' Statement of Accounts, the approval of the Statement of Accounts of the County Council and the Pension Fund has been delegated by the County Council to the Audit and Governance Committee. The regulations state that the deadline for approving the accounts for the financial year 2014/15 is 30 September 2015. The Chair of the Committee is required to sign and date the copy of the Statement of Accounts at the Audit and Governance Committee meeting.

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

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

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 13.

Consultations

The Accounts of the County Council, including those of the Lancashire County Pension Fund, were placed on deposit and available for public inspection between the 6 July and 31 July 2015 inclusive.

Implications:

Risk management

The Lancashire County Pension Fund's accounts for 2014/15 must be approved by 30 September 2015 in order to meet its statutory deadlines.

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

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

Paper	Date	Contact/Directorate/Tel
Final Accounts working papers	2014/15	Abigail Leech, Head of Corporate Finance Financial Resources 01772 530808
Accounts and audit regulations	2011	

Appendix 'A'

Lancashire County Pension Fund
Fund Accounts
2014-15

Lancashire County Council

www.lancashire.gov.uk

Accounts of the Fund

Responsibilities for the statement of accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Section 151 officer, who is also the Section 151 officer to the Pension Fund;

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

The responsibilities of the Section 151 officer to the Pension Fund

The Section 151 officer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Section 151 officer to the Pension Fund has:

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

In addition, the Section 151 officer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2015 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Abigail Leech ACA

Acting Section 151 Officer

28th September 2015

Annual Governance Statement 2014/15

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2015 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 153,203 members across 218 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including arrangements for the management of risk.

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework *"Delivering Good Governance in Local Government"*. The code is available from the County Council's website at the following link

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2014.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality

- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. During 2014/15 the County Treasurer, as the County Council's Chief Finance Officer, was separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority. Following a restructure of the County Council's management from 1st April 2015 the functions of Chief Finance Officer have passed to the Director of Financial Resources while the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2014/15 were:

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;
- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.
- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.
- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.
- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;
- To embed the processes associated with the Fund's risk register in the management of the Fund.
- To review the transparency and scale of charges made by the County Council for services provided to the Fund.
- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.
- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved a formalisation of the Fund's overall arrangements for the management of the different categories of risk to which it is exposed.

During the Year changes were made to the Fund's overall governance arrangements to accommodate the creation of the new statutory Local Pension Board as an oversight body. This resulted in the discontinuation of the Pension Fund Administration Sub Committee, which oversaw a range of administration related matters.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor (from 1st April 2015 the Director of Finance, Governance and Public Services) as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Chief Internal Auditor (from 1st April 2015 the Head of Service – Internal Audit) was during the year managerially accountable to the County Treasurer, and from 1st April 2015 will be managerially accountable to the Director of Legal and Democratic Services. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Chief Internal Auditor's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Chief Auditor's Annual Report for 2014/15 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2015/16

The following specific actions are proposed for completion during 2014/15.

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pension Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

County Councillor Terry Burns	George Graham
Chair of the Pension Fund Committee	Director
	Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Pension Fund annual report.

We have examined the pension fund financial statements of Lancashire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Lancashire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Director of Financial Resources and auditor

As explained more fully in the Responsibilities for the statement of accounts the Director of Financial Resources is responsible for the preparation of the Statement of Accounts of Lancashire County Council, which include the pension fund's financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of Management Structure, Foreword by the Chair of the Pension Fund Committee, Governance of the Fund, Administration of the Fund, Knowledge and Skills Framework, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Lancashire County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP
28 September 2015

Grant Thornton UK LLP
Chartered Accountants
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

Lancashire County Pension Fund
Fund account

	Note	2014/15 £m	2013/14 £m
Dealing with members, employers and others directly involved in the Fund			
Contributions	6	238.0	214.0
Transfers in from other pension funds	7	4.8	7.1
		242.8	221.1
Benefits	8	(240.2)	(221.1)
Payments to and on account of leavers	9	(100.1)	(15.3)
Management expenses	10	(35.4)	*(31.3)
		(375.7)	*(267.7)
Net withdrawals from dealings with members		**(132.9)**	***(46.6)**
Returns on investments			
Investment income	11	90.7	105.3
Profit and losses on disposal of investments and changes in the market value of investments	14	684.7	*118.4
Net return on investments		**775.4**	***223.7**
Net increase / (decrease) in the net assets available for benefits during the year		**642.5**	**177.1**

*Prior year restated to include all investment fees directly incurred by the Fund, including those charged on pooled fund investments previously accounted for within the valuation of investments.

Lancashire County Pension Fund

Net assets statement

as at 31 March 2015

	Note	31/03/15 £m	31/03/14 £m
Investment assets	14	6,383.1	4,877.3
Cash deposits	14	60.0	315.5
		6,443.1	5,192.8
Investment liabilities	14	(629.6)	(21.3)
Current assets	20	28.1	28.3
Current liabilities	21	(10.9)	(11.7)
Net assets of the Fund available to fund benefits at the period end		**5,830.7**	**5,188.1**

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended.

Abigail Leech ACA

Acting Section 151 Officer

County Councillor Terry Brown

Chair of the Audit and Governance Committee

Notes to the financial statements

1. Pension Fund operations and membership

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

The published accounts show that in 2014/15 cash inflows during the year consisted of £333.5 million and cash outflows were £375.7 million, representing a net cash outflow of £42.2 million (compared with an inflow of £58.7 million in the previous year). Benefits payable amounted to £240.2 million and were partially offset by net investment income of £90.7 million (including £11.7 million accrued dividends); contributions of £238 million and transfers in of £4.8 million. A bulk transfer out of £89.6 million in relation to the transfer of employment from the Probation Trust to Greater Manchester Pension Fund contributed to the overall cash outflow, as did the temporary investment of cash in liquid bond funds and directly held investment grade bonds to commit to investments in line with the Fund's investment strategy.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

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

The Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the Fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at Your Pension Service - Lancashire Fund Information

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

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

There are 320 employer organisations (2013/14: 297 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 218 have active members (2013/14: 210) as detailed below:

Lancashire County Pension Fund	**31/03/15**	**31/03/14**
Total number of employers	320	297
Number of employers with active members	218	210
Number of active scheme members		
County Council	27,405	27,501
Other employers	26,774	27,243
Total	54,179	54,744
Number of pensioners		
County Council	21,765	21,068
Other employers	21,446	21,210
Total	43,211	42,278
Number of deferred pensioners		
County Council	29,148	28,058
Other employers	26,665	25,837
Total	55,813	53,895
Total membership	**153,203**	**150,917**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2015 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008	Service post 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2014/15 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 25 of these accounts.

3. Accounting policies

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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

3.1.2 Transfers to and from other schemes

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

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

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

3.1.3 Investment income

3.1.3.1 Interest income

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

3.1.3.2 Dividend income

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

3.1.3.3 Distribution from pooled funds

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

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

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

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 Movement in the net market value of investments

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

3.2 Fund account – expense items

3.2.1 Benefits payable

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

3.2.2 Taxation

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

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs". The comparative figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance.

3.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the Fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

3.2.5 Oversight and governance expenses

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

3.2.6 Investment management expenses

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

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

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2014/15, £2.3m of fees is based on such estimates (2013/14: £2.8m).

The costs of the council's in-house fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the Fund.

3.3 Net assets statement

3.3.1 Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

3.3.2 Market-quoted investments

The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

3.3.3 Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

3.3.4 Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

3.3.5 Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.3.6 Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

3.3.7 Freehold and leasehold properties
The properties were valued at open market value at 31 March 2015 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

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

3.3.9 Valuation of investments
Investments are shown at their fair value as at 31 March 2015. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

3.3.11 Derivatives
The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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

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

3.3.13 Cash and cash equivalents
Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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

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

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

As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 25).

3.3.17 Additional voluntary contributions
Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending
Investments lent under securities lending arrangements continue to be recognised in the net assets statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation.

4. Critical judgements in applying accounting policies

4.1 Unquoted private equity and infrastructure investments
It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	**Uncertainties**	**Impact if actual results differ from assumptions**
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £601.2m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,236.0m. There is a risk that these investments might be under or overstated in the accounts.

Bonds secured on affordable housing assets.	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £42.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations.	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £43m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £170m.

6. Contributions receivable

By category	**2014/15** **£m**	**2013/14** **£m**
Employers	183.2	160.0
Members	54.8	54.0
	238.0	214.0

By authority

	2014/15 **£m**	**2013/14** **£m**
County Council	102.1	91.3
Scheduled Bodies	115.4	104.4
Admitted Bodies	20.5	18.3
	238.0	214.0

By type	2014/15 £m	2013/14 £m
Employee's normal contributions	54.8	54.0
Employer's contributions*	171.7	154.6
Employer's augmentation contributions**	11.5	5.4
	238.0	214.0

* 2014/15 employer's contributions include £47.3m in respect of deficit contributions.

**Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2014/15, £0.4m is voluntary and additional regular contributions. (2013/14: £0.4m)

7. Transfers in from other Pension Funds

	2014/15 £m	2013/14 £m
Individual transfers in from other schemes	4.8	7.1
	4.8	7.1

8. Benefits payable

By category	2014/15 £m	2013/14 £m
Pensions	192.0	183.9
Lump sum retirement benefits	41.7	33.2
Lump sum death benefits	6.5	4.0
	240.2	221.1

By authority	2014/15 £m	2013/14 £m
County Council	106.3	93.4
Scheduled Bodies	118.5	112.9
Admitted Bodies	15.4	14.8
	240.2	221.1

9. Payments to and on account of leavers

	2014/15 £m	2013/14 £m
Refunds to members leaving service	0.2	0.0
Individual transfers	10.3	12.9
Group transfers	89.6	2.4
	100.1	15.3

As part of a Ministry of Justice review, Greater Manchester Pension Fund (GMPF) was chosen to administer the Local Government Pension Scheme for the National Probation Service from 1st June 2014. This resulted in a bulk transfer being made to transfer Lancashire Probation Trust's share of assets to the GMPF.

10. Management expenses

	2014/15 £m	2013/14 £m
Administrative costs	3.5	3.6
Investment management expenses	29.2	*25.1
Custody fees	0.2	0.2
Oversight and governance costs	2.5	2.4
	35.4	*31.3

*Prior year restated in accordance with CIPFA guidance on accounting for management expenses. Investment and management expenses include £15.5m of investment fees directly incurred by the fund and previously accounted for within the valuation of investments.

Investment management expenses include £1m (2013/14: £1.5m) in respect of performance-related fees paid/payable to the Fund's investment managers. Investment management expenses also include £1.8m in respect of transaction costs (2013/14: £1.4m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. Investment income

	2014/15 £m	2013/14 £m
Fixed interest securities	2.9	31.5
Equity dividends	40.6	36.8
Index linked securities	0.0	1.6
Pooled investment vehicles	15.0	6.4
Net rents from properties	24.3	23.5
Interest on cash deposits	0.5	3.2
Other	7.4	2.3
	90.7	105.3

12. Property income

	2014/15 £m	2013/14 £m
Rental income	29.7	27.4
Direct operating expenses	(5.4)	(3.9)
Net income	24.3	23.5

13. Stock lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2014/15 was £2.2m (2013/14: £1.2m)

Securities on loan at the 31st March 2015 were £86m (2014: £131.7m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £86m of equities (2014: £129.9m equities and £1.8m bonds).

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation. The collateral is non cash and totalled £92m of equities (2014: £139.8m bonds).

14. Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	2,639.1	(2,428.3)	684.7	5,739.0
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	5,192.8				6,443.1
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

	Market value as at 1 April 2013 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2014 £m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investment vehicles	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Direct property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
Portfolio value	**4,989.0**				**5,171.5**

Investments analysed by fund manager

		31/3/15 £m	%	31/3/14 £m	%
Public equity					
External managers	Baillie Gifford	734.1	12.6%	793.0	15.3%
	MFS	334.2	5.7%	269.6	5.2%
	Morgan Stanley	283.5	4.9%	239.4	4.6%
	NGAM	230.8	4.0%	285.8	5.5%
	Robeco	448.5	7.7%	366.7	7.1%
UCITS funds	AGF	266.9	4.6%	239.9	4.6%
	MFG (Magellan)	238.1	4.1%	197.5	3.8%
		2,536.1	**43.6%**	**2,391.9**	**46.1%**
Private equity					
External managers	Capital Dynamics	269.9	4.7%	221.5	4.3%
Direct	Standard Life	7.6	0.1%	0.0	0.0%
		277.5	**4.8%**	**221.5**	**4.3%**
Long-term credit investments					
Senior secured loans	Ares Institutional	123.2	2.1%	106.5	2.1%
	Babson	72.8	1.3%	62.9	1.2%
	Hayfin	44.2	0.8%	20.4	0.4%
	Highbridge	57.1	1.0%	49.6	1.0%
	THL	55.8	1.0%	48.1	0.9%
Loans secured on real assets	Heylo Housing	42.6	0.7%	0.0	0.0%
	Prima	153.5	2.6%	0.0	0.0%
	Westmill	11.7	0.2%	11.9	0.2%
Emerging market debt	Bluebay	128.8	2.2%	81.7	1.6%
	HSBC	58.2	1.0%	47.0	0.9%
	Investec	83.5	1.4%	71.0	1.4%
	Pictet	129.6	2.2%	108.8	2.1%
Credit opportunities	CRC- Christofferson Robb & Co	34.4	0.6%	2.2	0.0%
	EQT	44.3	0.8%	20.0	0.4%
	MFO King Street	54.8	1.0%	47.0	0.9%
	Monarch	53.8	0.9%	48.5	0.9%
	Neuberger Berman	58.8	1.0%	35.5	0.7%
	Pimco Bravo	28.9	0.5%	8.5	0.2%
		1,236.0	**21.3%**	**769.6**	**14.9%**

		31/3/15 £m	%	31/3/14 £m	%
Liquid credit (cash and bonds)					
External managers	Babson	226.9	3.9%	60.0	1.2%
	ING	181.9	3.1%	206.6	4.0%
	Janus	0.0	0.0%	120.1	2.3%
	JP Morgan	0.0	0.0%	120.0	2.3%
	In-house	457.0	7.9%	514.6	10.0%
		865.8	**14.9%**	**1,021.3**	**19.8%**
Infrastructure					
Direct	Arclight Energy	35.9	0.6%	30.1	0.6%
	Capital Dynamics Cape Byron	65.6	1.1%	54.1	1.0%
	Capital Dynamics Clean Energy	32.9	0.6%	25.5	0.5%
	Capital Dynamics Red Rose	92.8	1.6%	93.2	1.8%
	Capital Dynamics US Solar	0.0	0.0%	14.3	0.3%
	EQT Infrastructure	13.1	0.2%	12.3	0.2%
	Global Infrastructure Partners	15.9	0.3%	17.2	0.3%
	Highstar Capital	33.4	0.6%	19.3	0.4%
	Icon Infrastructure	29.8	0.5%	25.4	0.5%
	ISQ Global Infrastructure	4.3	0.1%	0.0	0.0%
		323.7	**5.6%**	**291.4**	**5.7%**
Property					
Direct	Knight Frank	531.4	9.1%	450.5	8.7%
Indirect	Gatefold Hayes	12.9	0.2%	0.0	0.0%
	M&G Europe fund	30.1	0.5%	25.3	0.5%
		574.4	**9.8%**	**475.8**	**9.2%**
Portfolio Value		**5,813.5**	**100.0%**	**5,171.5**	**100.0%**

	31/03/15 £m	31/03/14 £m
Fixed interest securities		
UK corporate bonds quoted	94.2	76.0
Overseas corporate bonds quoted	54.6	157.0
	148.8	233.0

Equities	31/03/15 £m	31/03/14 £m
UK quoted	212.3	231.3
Overseas quoted	1,788.4	1,689.8
	2,000.7	1,921.1

Index linked securities	31/03/15 £m	31/03/14 £m
UK quoted	317.9	0.0
	317.9	0.0

Pooled investment vehicles	31/03/15 £m	31/03/14 £m
UK managed funds:		
Fixed income funds	58.2	47.0
Venture capital	278.5	264.8
Property funds	12.9	0.0
Overseas managed funds:		
Equity funds	505.0	644.1
Fixed income funds	1,443.8	970.3
Cash funds	0.5	0.0
Property funds	30.1	25.1
Venture capital	411.2	287.6
	2,740.2	2,238.9

Properties	31/03/15 £m	31/03/14 £m
UK – freehold	460.6	389.8
UK – long leasehold	70.8	60.7
	531.4	450.5

Property holdings

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

	31/03/15 £m	31/03/14 £m
Balance as at start of the year	450.5	434.9
Additions:		
Purchases	57.3	15.0
Construction	2.4	0.0
Disposals	(26.1)	(43.3)
Net gain/loss on fair value	47.3	43.9
Balance as at the end of the year	531.4	450.5

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2014/15 £m	2013/14 £m
Leases expiring in the following year	4.0	2.0
Leases expiring in two to five years	13.1	11.9
Leases expiring after five years	13.5	12.4
Total	30.6	26.3

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

Analysis of derivatives

Objectives and policies for holding derivatives
Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency
In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	Currency bought*	Local value m	Currency sold*	Local value m	Asset value £m	Liability value £m
Up to one month	GBP	300.0	USD	(442.9)	300.0	(298.4)
Up to one month	USD	445.9	GBP	(300.0)	300.4	(300.0)
One to six months	AUD	3.5	USD	(2.8)	1.8	(1.9)
One to six months	USD	30.4	CHF	(28.7)	20.5	(20.1)
One to six months	USD	5.3	AUD	(5.9)	3.6	(3.0)
One to six months	CHF	8.7	USD	(9.2)	6.1	(6.2)
Open forward currency contracts at 31 March 2015					632.4	(629.6)
Net forward currency contracts at 31 March 2015						2.8
Prior year comparative					£m	£m
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1

*Currencies are referred to above using International Standards Organisation codes.
GBP – British Pound, USD – US Dollar, AUD – Australian Dollar, CHF – Swiss Franc

	31/03/15 £m	31/03/14 £m
Cash deposits		
Sterling	35.0	148.0
Foreign currency	25.0	167.5
	60.0	315.5

15. Financial instruments classification

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

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31/03/15	Fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	148.8	-	-
Equities	2,000.7	-	-
Index linked securities	317.9	-	-
Pooled investment vehicles	2,740.2	-	-
Derivative contracts	632.4	-	-
Cash deposits	-	60.0	-
Investment accruals	11.7	-	-
Debtors	-	28.1	-
Total financial assets	**5,851.7**	**88.1**	**-**
Financial liabilities			
Derivative contracts	629.6	-	-
Creditors	-	-	10.9
Total financial liabilities	**629.6**	**-**	**10.9**

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	2,238.9	-	-
Derivative contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total financial assets	**4,426.8**	**343.8**	**-**
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total financial liabilities	**21.3**	**-**	**11.7**

16. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £634.1m (2013/14: £59m)

17. Financial instruments – valuation

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

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

17.1.2 Level 2
Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

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

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

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

The following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31/03/15	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets				
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	-	-	629.6
Total financial liabilities	**629.6**			**629.6**

31/03/14	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total financial assets	**3,314.6**	**179.9**	**929.9**	**4,424.4**
Financial liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total financial liabilities	**21.3**			**21.3**

18. Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

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

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

18.3.1 Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2014/15 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.0%
Total equities	9.6%
Alternatives	9.6%
Total property	2.1%

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

Asset type	31/03/15 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

Asset type	31/03/14 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,250.3	4.8%	1,310.3	1,190.3
Total equities	2,826.5	11.9%	3,162.8	2,490.1
Alternatives	291.2	3.8%	302.3	280.1
Total property	475.5	2.7%	488.3	462.7
Total assets available to pay benefits	**4,843.5**		**5,263.7**	**4,423.2**

18.4 Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31/03/15 £m**	**31/03/14 £m**
Cash and cash equivalents	60.0	315.5
Fixed interest securities	1,650.8	1,250.3
Total	**1,710.8**	**1,565.8**

18.4.1 Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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

Asset type		**Change in year in net assets available to pay benefits**	
	31/03/15 £m	**+100BPS £m**	**-100BPS £m**
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

Asset type		**Change in year in net assets available to pay benefits**	
	31/03/14 £m	**+100BPS £m**	**-100BPS £m**
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in assets available	**1,565.8**	**15.6**	**(15.6)**

18.5 Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:

Currency exposure – asset type	31/03/15 £m	31/03/14 £m
Overseas bonds (including index linked)	1,498.3	1,127.3
Overseas equities	2,513.8	2,466.3
Overseas alternatives	191.4	155.2
Overseas property	30.1	25.1
Total overseas assets	**4,233.6**	**3,773.9**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.2% (as measured by one standard deviation).

A 6.2% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (previous year = 6%).

A 6.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/15 £m	+6.2% £m	-6.2% £m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/14 £m	+6.0% £m	-6.0% £m
Overseas bonds (including index linked)	1,127.3	1,194.9	1,059.7
Overseas equities	2,466.3	2,614.2	2,318.3
Overseas alternatives	155.2	164.5	145.9
Overseas property	25.1	26.6	23.6
Total change in assets available	**3,773.9**	**4,000.2**	**3,547.5**

18.6 Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2015 was £60m (31 March 2014: £315.5m.) This was held with the following institutions:

Summary	**Rating**	**31/03/15**	**31/03/14**
Bank deposit accounts		**£m**	**£m**
Ulster bank	Baa3	0.0	5.0
Northern Trust	A2	30.8	248.0
Svenska Handelsbanken	Aa3	30.0	61.4
Bank current accounts			
Natwest account	Baa2	(0.8)	1.1
Total		**60.0**	**315.5**

18.7 Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2015 are due within the one year.

19. Additional voluntary contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2014 to 31 March 2015 for Prudential and 1 September 2013 to 31 August 2014 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.1	19.8	20.9
Income (incl. contributions, bonuses, interest & transfers in)	0.0	5.4	5.4
Expenditure (incl. benefits, transfers out & change in market value)	(0.1)	(4.1)	(4.2)
Value at the end of the year	**1.0**	**21.1**	**22.1**

20. Current assets

	31/03/15 £m	31/03/14 £m
Contributions due - employers	14.4	14.4
Contributions due - members	4.6	4.4
Debtors - bodies external to general government	9.1	9.5
	28.1	28.3

Analysis of debtors	31/03/15 £m	31/03/14 £m
Other local authorities	15.6	15.5
NHS bodies	0.0	0.1
Public corporations and trading funds	0.0	0.1
Other entities and individuals	12.5	12.6
	28.1	28.3

21. Current liabilities

	31/03/15 £m	31/03/14 £m
Unpaid benefits	0.1	0.6
Accrued expenses	10.8	11.1
	10.9	11.7

Analysis of creditors	**31/03/15 £m**	**31/03/14 £m**
Other local authorities	4.2	4.0
Other entities and individuals	6.7	7.7
	10.9	11.7

22. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £529.7m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £304.1m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £11.3m at 31st March 2015. These amounts are expected to be drawn down over the next 15 months based on valuation certificates.

The commitment on indirect property of £20.7m at 31st March 2015 relates to a property under construction held in an indirect fund. This amount is expected to be drawn down over the next 15 months based on valuation certificates for a scheduled completion in May 2016.

23. Related Party Transactions

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

- At 31 March 2015, Damon Lawrenson, CPFA, was Interim Director of Financial Resources to the Pension Fund and Lancashire County Council.
- The Pension Fund includes 136 scheduled and 184 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2014/15. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

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

The council incurred costs of £4.5m (2013/14: £4.2m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £79.5m to the fund in 2014/15 (2013/14: £69.1m). All monies owing to and due from the Fund were paid in year.

23.2 Key management personnel
Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24.

This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

24. Funding arrangements

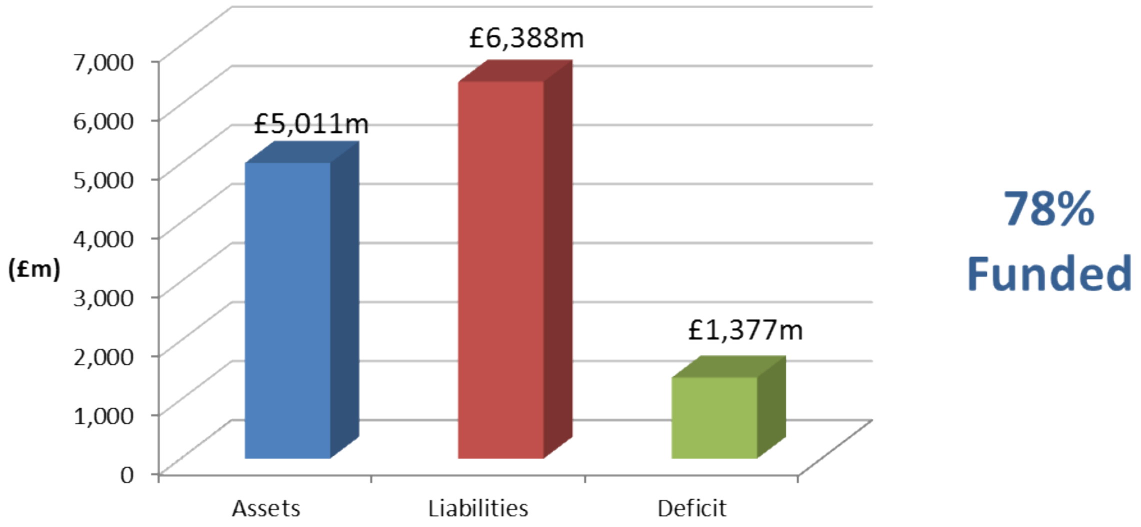
Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement.

Your Pension Service - Lancashire Fund Information

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

25. Actuarial present value of promised retirement benefits

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). In addition, the expected long-term rate of CPI inflation fell during the year, resulting in a lower assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £6,917m. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by approximately £1,251m. Adding interest over the year increases the liabilities by approximately £309m, and allowing for net benefits accrued/paid over the period (including allowance for the Probation transfer) decreases the liabilities by approximately £107m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £8,370m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2015

26. Events after the net assets statement date

On 2nd July 2015 the Pension Fund Committee of Lancashire County Council and the Board of the London Pension Fund Authority each separately agreed to seek regulatory approvals for the creation of an Asset and Liability Management Partnership. This partnership, which is a response to the Government's reform agenda for the Local Government Pension Scheme, has the potential to fundamentally change the way in which the two Funds are managed and achieve significant reductions in the cost of running the Funds.

The Partnership will oversee the creation of a pool of investment assets (made up of the assets of the two funds) which will be jointly invested, as well as a pension services organisation which will carry out both investment management and pension administration functions. Both the asset pool and the investment management activities will be regulated by the Financial Conduct Authority.

The Pension Fund Committee of Lancashire County Council and the Board of the LPFA will each make a final decision on the Partnership based on a full business plan at simultaneous meetings during November 2015.