Statement of Accounts

2012-2013

Lancashire County Council

Contents

Introduction to the statement of accounts

Purpose of the statement of accounts

This statement forms the formal audited accounts of the county council for the financial year 1 April 2012 to 31 March 2013. The production of the statement is prescribed by statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The statement gives the reader an overall impression of the finances of the county council for the financial year 2012/13. 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 2012/13 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' (ie 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 Cashflow 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, and are included in this statement for information only. Annual Report will be published for members of the fund which include these accounts. An accurate report will be published for members of the fund which include these accounts.

Revenue spending in 2012/13

The overall financial health of the county council at the end of the 2012/13 financial year continues to be strong, and is well placed to continue to meet the difficult financial challenges ahead.

The council has continued to demonstrate:

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

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

The final position in respect of spending on services was an underspend of £12.9m largely arising in the Children and Young Peoples directorate due the early realisation of planned savings and the release of resources from directorate reserves and provisions following a review of reserves held by individual directorates.

As part of the measures taken to protect the security of county council's investments during the challenging financial climate, the proactive management of the bond portfolio has resulted in additional investment returns resulting in, a saving of £13.7m on the council's capital financing budget.

At 31 March 2013 the County Fund balance stood at £36.0 million representing 4.6% of the 2013/14 budget requirement. A general reserve on this scale is regarded as sufficient to manage the significant financial risks facing the county council going forward.

There are a further £178.1m of revenue reserves (including trading operations but excluding Schools reserves). This now includes specific provision for the council's Strategic Investment programme, future severance costs and the Service Transformation Programme to be delivered through One Connect Limited on a business case basis.

There are also £25.9m of specific revenue provisions the most significant of which is £16.3m in respect of insurance.

Schools

The Schools delegated budget has under spent by £0.7m whilst the centrally held budget for schools spending has under spent by £6.4m. Seven schools have converted to Academies, resulting in a transfer of £1.7m of reserves. As a result schools balances stand at £51.5m with other schools reserves totalling £29m.

Capital spending in 2012/13

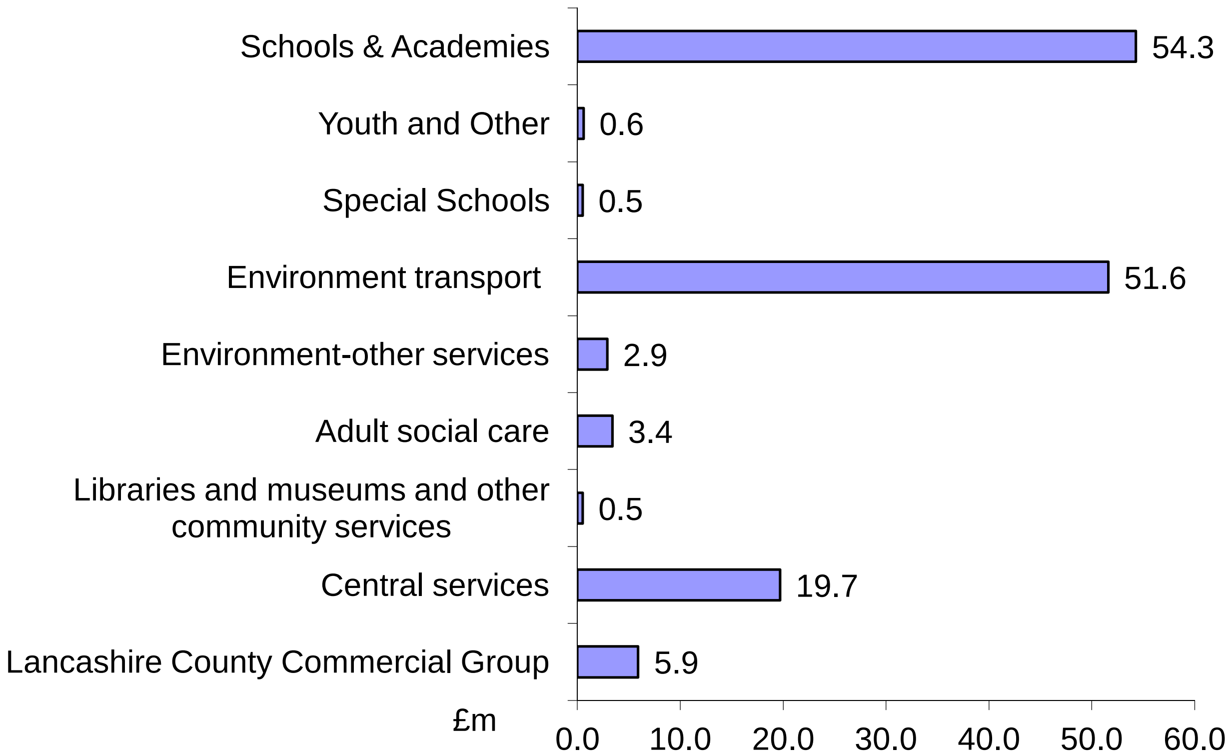
The total of the county councils capital spending in 2012/13 was £139.4 million. This reflects the county council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

- The major refurbishment of Accrington Enfield Day Centre was completed in July 2012 providing more modern/appropriate facilities for disabled adults.
- Extensive demolition and rebuilding works at Leyland Crossways Day Centre providing modern/appropriate facilities for disabled adults and handed over in May 2013
- Major internal refurbishment and remodelling of an existing Victorian school at Morecambe Bay primary school to provide modern/appropriate facilities completed in November 2012
- A major programme of projects on primary schools in Fleetwood comprising either new build or major extensions and remodelling work to 6 primary schools. Three of the projects completed during 2012/13 and three are due to complete before August 2013.
- Fulwood Academy – following the merger of the former Fulwood and Tulketh High Schools on the Fulwood site this project was a significant new build and refurbishment of some existing accommodation to provide modern facilities for 100 11–16 pupils and a 200 place 6th Form.
- 718 completed transport schemes.
- Over 15,500 potholes filled during the year, with an average of 90% filled within 30 days
- £2.3million was spent during 2012-13 on implementing the 20MPH programme, improving the safety of the streets
- The examination stage of the planning enquiry for the Heysham M6 link project was closed, and the Secretary of State approved the scheme on 19 March 2013, with construction scheduled to start in July 2013
- Farrington Waste Recycling Centre, the busiest of the county council's 15 centres, re-opened in February 2013 after a £2.5million redevelopment
- £4.8m of developer funding was utilised on Section 278 highway projects during 2012/13
- Loans of £7.2m through the Growing Places Fund which promotes economic development initiatives within the county were made
- Computer system upgrades to the value of £7.4m undertaken in conjunction with the strategic partner, including commencement of work to replace 'ISSIS' and 'Resolution' in-house systems
- Continued implementation of the Office Accommodation Strategy principally with work carried out on the County Hall complex to the value of £2.4m

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

The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2012/13 was £737.7 million, although some of this relates to assets which have been transferred to other authorities as a result of previous reorganisation of local government. That part for which the county council is financially responsible is £694.5 million, of which the majority is with the Public Works Loan Board (PWLB). The average rate of interest paid on all the debt in 2012/13 was 2.5% compared with an average rate for 2011/12 of 2.1%.

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



Other financial performance measures for the year include:

- Treasury management activity has generated average interest on investments of 4.25%;
- As at the end of the year the proportion of outstanding debt over 6 months old was 10.2% compared to 14.8% a year earlier;
- The average number of debtor days (a measure of the speed of income collection) was 42.1 days compared to 46.7 days a year earlier.

Full details of spending, income and budget variances are set out in the county council's end of year report on the position for 2012/13 to Cabinet on 11 July 2013. This is available on our website: http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122.

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

Outlook for the future

Lancashire County Council continues to face significant risk in the delivery of the final year of the current financial strategy (2013/14) and in particular the management of demand. There is also significant risk identified in funding for the council in the next spending review period. It is anticipated the county council will have to save in the order of £300m in the next four years.

To manage this ongoing risk a four year financial strategy is currently being developed which will form the basis for future budget setting.

The main demand pressures faced by the county council include:

- The number of adults with mental, physical and learning disabilities seeking support from the county council is forecast to increase significantly in future years
- The pressure of the increasing elderly population is also forecast to continue

The significant areas of cost pressure include:

- Price increases in the delivery of residential care by third party providers
- Increases in the costs relating to foster carers
- Contract price increases relating to waste including landfill costs and the PFI contract
- Contract price increases relating to bus services and concessionary travel

The pressure on resources available to the county council reflects:

- The continuing downwards trajectory of funding from central government in the next spending review period
- The potential volatility of future business rates income retained locally, and
- The potential impact on collection rates of council tax due to the implementation of local council tax support schemes and other welfare reforms.

2013/14 represents the first year under the new arrangements for providing local authority funding through the 'Business Rates Retention scheme'. Whilst the impact on the council's funding in 2013/14 has been managed within the budget, there is a risk for the future funding for the council in respect of the volatility of business rate income in future years. This risk will be managed through the Financial Strategy for the next four years to cover the life of the council's new administration.

2013/14 also represents the first year under local schemes for the provision of council tax support determined by each of the county's 12 district councils. The impact on the council's budget in 2013/14 has been contained, however there is a risk in future years in respect of the impact upon collection rates and council tax base that these schemes may have. The council's financial strategy will reflect the expectations of this impact and mitigate any pressure it may create.

Events after the Balance Sheet Date

The initial Revenue Support Grant was top sliced to be utilised as funding for schools moving to academies. At the end of the financial year the Department for Education calculation based on number of schools moving to academies, resulted in £3.599m being returned to the council at the end of May 2013. This refund was not provided for within the accounts because of the uncertainty of its value.

The new arrangements for the retention of business rates comes into effect on 1 April 2013, the council will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the council, but would have been transferred to Department for Communities and Local Government. At this stage, the value of this is uncertain.

Since preparing the Accounts St Mary's Catholic Technology College, Leyland was burned down. The value of the school formed part of the Property, Plant and Equipment (PPE) figure in the accounts. The school was held in the Balance Sheet at £5.471m. If the fire had taken place before 31.3.13 it is estimated that the school would have been impaired to a value of £1. The rebuild will be fully covered by insurance policies and is currently estimated to cost approximately £20m.

The County Council is a key partner in a £400m City Deal, the deal has been agreed between the Government the County Council, Preston City Council, and South Ribble Borough Council. The City deal consists of a series of infrastructure projects which will allow four new road schemes to go ahead and will open up land for approximately 17,000 new homes to be built. In order to facilitate the City Deal the County Council has earmarked its future revenue stream from the New Homes Bonus in this part of Lancashire and has undertaken to provide support to manage cash flow differences within the overall City Deal delivery programme. The impacts of these commitments have been reflected in the Council's forward financial forecasts.

Pensions liability

Pension costs are reported in line with International Accounting Standard 19 (IAS 19). This means that the notional costs of retirement benefits are charged to the accounts as they are earned by employees in the year; finance costs (interest costs and the return on assets) must also be included.

These notional costs are then reversed out of the accounts and substituted by the actual cash costs of employer pension contributions in the Statement of Movement in Reserves in order to give the council's actual spend position for the year. (This position is set out in detail in note 59 to the accounts). The treatment under IAS 19 also means that the council's balance sheet includes an entry for the accumulated pension liability, which is a forecast of the long term liability to pay staff retirement benefits (the balance sheet also contains an equal and offsetting notional pension's reserve entry).

At 31 March 2013 the pensions liability calculated by the actuary is £1,127.1 million, an increase of £187.6 million over the previous year's figure of £939.5 million. The net liability of £1,127.1 million is split between the Lancashire County Pension Fund (£977 million) and the Teachers Pension Scheme (£150.1 million).

Gill Kilpatrick CPFA

County Treasurer

30th September 2013

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

Opinion on the Authority financial statements

We have audited the financial statements of Lancashire County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

As explained more fully in the Statement of the County Treasurer Responsibilities, the County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Lancashire County Council as at 31 March 2013 and of its expenditure and income 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 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and

- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, *Lancashire County Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by the Council. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
4 Hardman Square
Spinningfields
MANCHESTER, M3 3EB
30 September 2013

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 county treasurer;

- manage our affairs to secure economic, efficient and effective use of resources and safeguard our assets;

- approve the statement of accounts.

The county treasurer's responsibilities

The county treasurer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2013.

In preparing this statement of accounts, the county treasurer has:

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

They have also:

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

Annual Governance Statement – financial year 2012/2013

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 and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/ SOLACE framework 'Delivering Good Governance in Local Government' and is available on the council's website; hard copies can be obtained by contacting Roy Jones on 01772 533619. This local code will be reviewed and revised during 2013/14.

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 2013 and up to the date of approval of the statement of accounts.

The council's governance framework

The following paragraphs set out highlights of the key elements of the council's governance framework, and areas where further work is being undertaken to improve this where necessary.

Communicating and reviewing the Council's vision for communities and service users

The council has a corporate strategy which sets out its vision for Lancashire for the period 2013-17. The strategy is refreshed annually to reflect changes in both local and national priorities.

To measure the effectiveness and delivery of the council's ambitions, the council's Cabinet Committee on Performance Improvement regularly reviews the performance of services against local and national indicators and the Corporate Strategy. The council's management 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, including:

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; and
- Member representation on neighbourhood management boards across Lancashire.

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.

The scheme of delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level, and is currently being reviewed. The council's financial regulations and cabinet member delegations are likewise being reviewed to ensure that they remain effective.

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 is also being developed to support consistency and good governance in decision making. Decision making rules are clearly outlined within the council's constitution.

The code of conduct for 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. A new Conduct Committee was established during the year to consider complaints made against members of the council, as the former Standards Committee was disestablished. The council has a protocol for councillor/ officer relations.

Arrangements for scrutiny

The council has three scrutiny committees. The Scrutiny Committee whose coverage includes the council's crime and disorder partnership and flood risk management. 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.

Leadership and management

The council has, as required by statute, a head of paid service (the chief executive), a monitoring officer (the county secretary and solicitor), and a 'section 151 officer' (the county treasurer). Each role operates in accordance with the relevant statute and professional guidance.

On 5 August 2013 the chief executive was suspended in order to facilitate a disciplinary investigation in respect of the chief executive's conduct in relation to the process for letting the contract for fleet services. Appropriate arrangements have been put in place to ensure that the council continues to be effectively managed in his absence.

Financial arrangements

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).

Whistle-blowing and counter fraud arrangements

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 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.

Audit arrangements

The council has an Audit and Governance Committee which operates in accordance with professional guidance and receives appropriate training. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process.

The council has a well regarded internal audit service that operates in accordance with professional standards and is a key element of the corporate governance framework.

Risk management

The council manages its risks well, and management teams across the council identify, assess and manage risks effectively. There is good general awareness of risk and the need to demonstrate risk management.

Internal control

As set out in the internal audit annual report for 2012/13, real improvements continue to be made in some common areas of control across the council and the council's risks are adequately controlled; in overall terms there is generally a sound system of internal control. There are a number of other areas where controls are either inadequately designed for their current purpose or ineffectively operated in practice.

However, the management team recognises that although the chief internal auditor has provided substantial assurance overall that there is generally a sound system of internal control, some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk. This is reflected in the range of assurances provided by the internal audit service with 42% providing either limited or nil assurance.

The annual internal audit plan is specifically targeted at areas of risk, either identified through the internal audit risk based methodology or as a result of areas specifically raised by Directorate Management Teams. It is the express wish of the management team that the internal audit service bring to management attention areas where controls place the achievement of objectives at risk to enable corrective action to be taken.

In 2013/14, the chief internal auditor will provide quarterly reports to the management team on progress on strengthening the internal control framework where assurance is either limited or none.

Specifically, although work has begun to strengthen the council's information governance arrangements, little action has been taken corporately for some time to ensure that there is any general awareness amongst the council's staff of the need for information security, how to guard this effectively, how to recognise that security has been breached and what action to take if it has.

Compliance with legislation, regulations, policies and procedures

In an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved, but processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Training and development

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. Officer training is overseen through a corporate performance and development review process.

Review of effectiveness

The council conducts an annual review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the council's Management Team who have responsibility for the development and maintenance of the governance environment, by statements of assurance from each member of the management team, the chief internal auditor’s annual report, and also by comments made by the external auditors and other review agencies and inspectors.

Programme of improvement on significant governance issues

A number of points for improvement have been set out above. The council's leadership and Management Team are committed to ensuring that the council remains well governed throughout.

We will monitor the implementation of the matters set out above as part of our next annual review.

Signed:

Jennifer Mein	Jo Turton
Leader of Lancashire County Council	Acting Chief Executive of Lancashire County Council
Date 30th September 2013	Date 30th September 2013

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' (ie 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 and dwellings rent setting purposes.

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

2012/13

	County Fund	Earmarked Revenue Reserves	Trading Operations Reserve	Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2012	**(36.5)**	**(248.1)**	**(2.9)**	**(13.1)**	**(22.9)**	**(121.3)**	**(444.8)**	**(592.8)**	**(1,037.6)**
Movement in Reserves During 2012/13									
(Surplus) or deficit on provision of services	(33.0)	-	-	-	-	-	(33.0)	-	(33.0)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	197.0	197.0
Other movements	0.2	-	-	-	-	0.3	0.5	9.4	9.9
Total Comprehensive Income and Expenditure	**(32.8)**	**-**	**-**	**-**	**-**	**0.3**	**(32.5)**	**206.4**	**173.9**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 7)	(4.8)	-	-	-	(3.7)	28.9	20.4	(20.4)	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(37.6)**	**-**	**-**	**-**	**(3.7)**	**29.2**	**(12.1)**	**186.0**	**173.9**
Transfers to/from Earmarked Reserves (note 8)	38.1	(7.3)	(0.2)	(30.6)	-	-	-	-	-
Increase/Decrease in Year	**0.5**	**(7.3)**	**(0.2)**	**(30.6)**	**(3.7)**	**29.2**	**(12.1)**	**186.0**	**173.9**
Balance at 31st March 2013 carried forward	**(36.0)**	**(255.4)**	**(3.1)**	**(43.7)**	**(26.6)**	**(92.1)**	**(456.9)**	**(406.8)**	**(863.7)**

2011/12 Comparative Year

	County Fund	Earmarked Revenue Reserves	Trading Operations Reserve	Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2011	**(41.9)**	**(185.8)**	**(3.7)**	**(11.8)**	**(24.1)**	**(58.7)**	**(326.0)**	**(796.8)**	**(1,122.8)**
Movement in Reserves During 2011/12									
(Surplus) or deficit on provision of services	(78.5)*	-	-	-	-	-	(78.5)	-	(78.5)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	165.7	165.7
Other movements	(0.1)	-	-	-	-	2.1	2.0	(4.0)	(2.0)
Total Comprehensive Income and Expenditure	**(78.6)**	**-**	**-**	**-**	**-**	**2.1**	**(76.5)**	**161.7**	**85.2**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 7)	21.2	-	-	-	1.2	(64.7)	(42.3)	42.3	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(57.4)**	**-**	**-**	**-**	**1.2**	**(62.6)**	**(118.8)**	**204.0**	**85.2**
Transfers to/from Earmarked Reserves (note 8)	62.8*	(62.3)*	0.8	(1.3)	-	-	-	-	-
Increase/Decrease in Year	**5.4**	**(62.3)**	**0.8**	**(1.3)**	**1.2**	**(62.6)**	**(118.8)**	**204.0**	**85.2**
Balance at 31st March 2012 carried forward	**(36.5)**	**(248.1)**	**(2.9)**	**(13.1)**	**(22.9)**	**(121.3)**	**(444.8)**	**(592.8)**	**(1,037.6)**

***** Prior year adjustment (see note 2)

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.

	2012/13			2011/12 (Restated)		
	Gross expenditure £m	Gross income £m	Net expenditure £m	Gross expenditure £m	Gross income £m	Net expenditure £m
Cultural and Related Services	26.6	(4.9)	21.7	31.0	(6.4)	24.6
Environmental and Regulatory Services	110.0	(23.1)	86.9	70.3	(22.2)	48.1
Planning Services	15.8	(2.9)	12.9	6.7	(0.6)	6.1
*Education Services	979.8	(894.1)	85.7	1,005.8	***(911.0)	94.8
*Children's Social Care	117.6	(5.6)	112.0	108.5	(2.2)	106.3
Highways and Transport Services	122.9	(30.9)	92.0	122.7	(15.7)	107.0
*Adult Social Care	460.3	(155.3)	305.0	457.3	**(144.2)	313.1
Central Services to the Public	6.8	(2.2)	4.6	6.0	(1.7)	4.3
Corporate and Democratic core	15.2	(8.8)	6.4	29.7	(9.4)	20.3
Non Distributed Costs	108.4	(104.9)	3.5	60.3	(72.0)	(11.7)
Travellers' Sites	0.2	-	0.2	0.2	-	0.2
Cost of services	**1,963.6**	**(1,232.7)**	**730.9**	**1,898.5**	**(1,185.4)**	**713.1**
Other Operating Income and Expenditure (note 10)	50.0	(3.7)	46.3	106.9	-	106.9
Financing and Investment Income & Expenditure (note 11)	214.7	(139.7)	75.0	213.1	(167.6)	45.5
Taxation and Non Specific Grant Income (note 12)	-	(885.2)	(885.2)	-	***(943.9)	(943.9)
Surplus or Deficit	**2,228.3**	**(2,261.3)**	**(33.0)**	**2,218.5**	**(2,296.9)**	**(78.4)**
Revaluation Gains (note 36)	-	-	(12.3)	-	-	(16.2)
Revaluation Losses (chargeable to revaluation reserve) (note 36)	-	-	36.0	-	-	6.4
Surplus or Deficit on revaluation of non current assets	**-**	**-**	**23.7**	**-**	**-**	**(9.8)**

Surplus or deficit on revaluation of available for sale assets (Note 36)	-	-	0.6	-	-	(6.7)
Actuarial gains/losses on pension assets/liabilities - Matching the entry to the pensions reserve (Note 36)	-	-	173.3	-	-	175.4
Other Adjustments	-	-	9.3	-	-	4.7
Other Comprehensive Income and Expenditure	**-**	**-**	**183.2**	**-**	**-**	**173.4**
Total Comprehensive Income and Expenditure	**-**	**-**	**173.9**	**-**	**-**	**85.2**

*Restated 2011/12 comparatives due to Children's and Education Service and Children's Social Care being disaggregated in the 2012/13 accounts.

**Prior year adjustment (see note2)

***Restated 2011/12 comparatives since the presentation of the early intervention grant has changed to reflect the non specific nature of the grant

Balance sheet

The balance sheet shows the value as at the balance sheet date 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 (ie 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'.

	Notes	31 March 2013	31 March 2012 Restated	1 April 2011
		£m	**£m**	**£m**
Property Plant and Equipment	25	2,612.4	2,647.7	2,427.8
Heritage Assets	24	28.4	28.4	28.4
Investment Property		5.3	5.5	5.5
Intangible Assets		17.5	11.9	1.6
Long Term Investments	26	268.2	235.7	276.1
Long Term Debtors	37	43.1	45.1	47.8
Deferred Consideration		-	-	3.3
Long Term Assets		**2,974.9**	**2,974.3**	**2,790.5**
Short Term Investments	26	258.9	328.6	169.4
Inventories		2.6	3.2	3.5
Short Term Debtors	31	128.9	*93.9	95.0
Payments in Advance		7.1	4.4	3.7
Cash and Cash Equivalents		65.6	47.9	71.4
Assets Held for Sale		4.0	1.9	2.4
Current Assets		**467.1**	**479.9**	**345.4**

Short Term Borrowing	26	264.7	350.8	355.6
Short Term Creditors	32	260.8	186.5	189.2
Receipts in Advance		8.3	22.5	31.5
Short Term Provisions	34	4.7	7.0	14.5
Other Current Liabilities	26	7.6	8.0	-
Current Liabilities		**546.1**	**574.8**	**590.8**
Long Term Provisions	34	21.2	28.5	29.1
Long Term Borrowing	26	480.6	462.8	**627.1
Other Long Term Liabilities	26, 45	1,530.4	1350.5	**766.0
Long Term Liabilities		**2,032.2**	**1,841.8**	**1,422.2**
Net Assets		**863.7**	**1,037.6**	**1,122.9**
Usable Reserves		456.9	444.8	326.1
Unusable Reserves	36	406.8	592.8	796.8
Total Reserves		**863.7**	***1,037.6**	**1,122.9**

* Prior year Adjustment (see note 2)

** Prior year figures have been changed since the reclassification of PFI liabilities.

Note - the Movement in Reserves Statement also provides details of the movements in the Usable Reserves.

Cash flow statement

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

	Note	2012/13 £m	2011/12 Restated* £m
Net (surplus) or deficit on the provision of services	38	(33.0)	(78.5)
Adjustment to surplus or deficit on the provision of services for non cash movements	38	(111.3)	(165.0)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	38	95.9	181.3
Net Cash flows from Operating activities	38	**(48.4)**	**(62.2)**
Net Cash flows from Investing Activities	40	(52.7)	86.5
Net Cash flows from Financing Activities	41	83.4	(0.8)
Net increase or decrease in cash and cash equivalents		**(17.7)**	**23.5**
Cash and cash equivalents at the beginning of the reporting period		(47.9)	(71.4)
Cash and cash equivalents at the end of the reporting period		**(65.6)**	**(47.9)**

*Prior year adjustment (see note 2) also the prior year figures have been restated as sales and purchases of investments are shown net (See notes 38 to 41 for further details)

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 2013 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA
County Treasurer
30th September 2013

County Councillor Clare Pritchard
Chair of the Audit and Governance Committee
30th September 2013

Notes to the financial statements

General Notes

1. Accounting Policies

a) General

The Statement of Accounts summarises the council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. 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 2012/13 and the Service Reporting Code of Practice 2012/13, 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.

b) Accruals of income and expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept. Estimated debtors and creditors have only been included if they are material, which is defined as:
    - £1,000 or more for primary schools, nursery schools and pupil referral units; and
    - £5,000 or more for secondary schools and all other council services.

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

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when services are received, rather than when payment is made.

c) 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.

d) 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 (ie 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.

e) 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.

f) 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 (eg from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled. Details of our provisions are given in note 34 to the accounts.

g) Intangible Assets

Expenditure on assets that do not have physical substance but are controlled by the council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market.

In practice, no intangible asset held by the council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

h) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie 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 (existing use value – EUV).

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

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

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

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

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – on a straight line generally over 10 years unless it is considered the life of the asset is less than 10 years.
- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.

- The asset will be reviewed and any part of the asset which can be identified as a self contained building will be subject to a separate valuation and asset life. This will ensure any part of the overall asset which is not of the same construction quality, has a specific use and/or economic life will be identified.

- For any building with a value above £2 million consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration any aspect of the construction, such as the roof, windows or any specialist items. For the purposes of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant.

- Any equipment which is a fixture of the building will be included within the overall assets valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

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

Disposals and Non-current Assets Held for Sale

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie 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 fixed assets is fully provided for under separate arrangements for capital financing.

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

i) Heritage Assets

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

j) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

k) Fixed Assets not owned by the Council

Some voluntary-aided and controlled schools are owned by the school governors. However these schools are included in our fixed assets as we receive the benefit from using the properties in terms of the delivery of services and also meet their costs of service provision, using the assets and the costs of maintaining them.

In total**,** £489m (2011/12 £493m) of fixed assets not owned by us are included in the balance sheet.

l) 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.

m) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the County Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Accounts and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) 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 2012/13 (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.

Where SeRCOP requires support services to be recharged, this has been done on the following bases:

- The cost of administrative offices is based on the floor area occupied by each service.
- Charges for central services are allocated wherever possible on output measures. This means that creditor payment costs are allocated as a charge per invoice, payroll administration costs are based on charges per payslip, and so on.
- The Finance Group's charges for accountancy and auditing are based on staff time.
- The Property Service Group's costs are allocated on several bases in line with commercial practice, for example linked to professional fee scales and relevant discounts.
- The Legal Services Group's charges are based on staff time, whilst the Corporate Personnel Group's costs are based on staff numbers.
- Costs defined under SeRCOP as falling within corporate and democratic core services and central overheads cannot be apportioned (for example, member services) and are charged to a separate account.

o) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the most appropriate method.

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.

p) 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.

q) Leases

Operating Leases

The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as a Lessor

Where the council grants an operating lease over a property or an item or plant or equipment, the asset is retained in the Balance Sheet.

Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiation and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The council does not have any material finance leases.

r) 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 to the continuing operations costs in the Comprehensive Income and Expenditure Statement, when the council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Pension Arrangements

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

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

- The Local Government Pensions Scheme, administered by Lancashire County Council.

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

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

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

Lancashire County Pension Fund

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

- 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, (ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees).

- Liabilities are discounted to their value at current prices, using a discount rate of 4.2%; this was based on a weighted average of “spot yields” on AA rated corporate bonds.

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

- The change in the net pensions liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.

- Contributions paid to the Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary benefits

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

s) Private Finance Initiatives (PFI)

Current Status of PFI Projects

The PFI arrangement for Fleetwood Sports College (formerly known as Fleetwood High School) is a continuing commitment for 25 years from September 2002.

We have signed four separate PFI contracts for different phases of the Building Schools for the Future initiative. The schools opened between September 2008 and September 2010. Each contract will run for 25 years from the opening date. Payments to the PFI contractor begin when the schools open.

Revenue transactions and balance sheet entries relating to the above schemes are explained in note 21.

We have also signed a PFI contract with Global Renewables Lancashire (GRL) Limited for waste treatment facilities in Leyland and Thornton. The facilities receive and process "green" garden and kitchen waste, "recyclable" waste such as paper, glass, aluminium cans and textiles, and "black bag" rubbish from households in Lancashire and Blackpool. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The project started service commencement in 2011/12.

Accounting for PFI

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

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

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 fixed assets of the council. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use.

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

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

Prepayments

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

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. 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.

t) Financial Liabilities

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

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

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

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

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

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

u) 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 of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

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

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

Changes in fair value (other than impairment losses) are balanced by an entry in the available-for-sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

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

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

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

Fair Value through Profit and Loss

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

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

Any gains 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.

v) Group Accounts

In previous years we have prepared a set of group accounts, but this was reviewed in 2006/07 and a set of group accounts was not prepared, on the grounds that none of the entities within the group boundary is material. This accounting policy is reviewed annually.

The statement of accounts does include, at note 42, a full description of the fifteen organisations within the group boundary, the percentage of voting rights controlled by the council for each group member, and the nature of the council's relationship with them.

w) Council Tax Agency Arrangements

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

- In its capacity as a billing authority 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.

Up to 2008/09 the Statement of Recommended Practice (SORP) required the council tax income included in the Comprehensive Income and Expenditure Statement to be the amount that, under regulation, was required to be paid from the Collection Funds to the major preceptors. From the year commencing 1 April 2009, for both billing authorities and major preceptors the council tax income included in the Comprehensive Income and Expenditure 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 (eg 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.

x) Events after the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

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

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

y) 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 43).

z) Contingent Assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council (see note 44). Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

aa) 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.

bb) Construction Contracts

Construction contracts are those contracts which the council is undertaking on behalf of its customers, specifically negotiated for the construction of an asset.

The council has 44 construction contracts in operation relating to Section 278 agreements in which work is carried out on the existing adopted highway for the benefit of a third party, which is usually funded by the third party (eg a new supermarket).

cc) Income from charges over property

In those instances where service users defer paying their contribution to the cost of their care, the income will be secured via a charge on the service user's property. This income will be accounted for when it becomes due and amounts to an interest free soft loan.

2. Prior Period Adjustments

The deferred payment scheme in Adult Social Care enables service users to defer paying their contribution to the cost of their residential care. The income due to the county council is secured via a charge on the service user's property.

The accounting policies adopted by the council have been reviewed. The previous policy did not fully accord with proper accounting practice as it in effect accounted for income as it was received as opposed to when it becomes due. This change in accounting policy results in increased income in relation to previous years being recognised in the accounts. The impact of this is to increase the council's overall resources by £8.2m.

In applying the new accounting policy the council at 31st March 2013 identified short term debtors of £14.1m which amount to a soft loan.

It was impracticable to restate the figures pre 2011/12 because data held prior to 2011/12 was not on the same basis as current data; and after considering attrition rates in older people's residential care it was determined that a data cleanse exercise on pre 2011/12 data was unwarranted.

In the restated balance sheet 31st March 2012 a prior year adjustment of £8.2m and a corresponding increase to the Service Transformation reserve has been recognised (see table 1). The Movement in Reserves Statement was restated to reflect the increase in the Transformation reserve and subsequently the income and expenditure at 31st March 2012 has also been restated to reflect the additional income (see table 2). Comparative figures in the cashflow statement were also restated as were notes 8, 13, 26 and 31.

Table 1: 31st March 2012 Balance Sheet

	Original 2011/12 Statement £m	Adjustment Made £m	Final Adjusted Amount £m
Short Term Debtors	85.7	8.2	93.9
Total increase in net assets	**-**	**8.2**	
Reserves	1,029.5	8.2	1,037.7
Total increase in reserves	**-**	**8.2**	

Table 2: 2011/12 Comprehensive Income & Expenditure statement (CIES)

	Original 2011/12 Statement	Adjustment Made	Final Adjusted Amount
	£m	£m	£m
Adult Social Care			
Other operating income	136.0	8.2	144.2
Increase in surplus	**-**	**8.2**	**-**

3. 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, a faith centre and waste treatment facilities and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings (valued at £474.9 million) recognised as Property, Plant and Equipment on the council's balance sheet.

- The council has to decide whether land and buildings owned by the council are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the county council does hold investment properties which have been valued at £5.3 million as at 31 March 2013.

- The council has to determine whether the leases it enters should be classified as operating or finance leases. The council must also consider whether contractual arrangements it enters into have the substance of a lease.

- These judgements are made on the professional opinion of the 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 accountants have assessed each relationship that exists between the council and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The county council's relationships with other entities can been found in note 42. We have reviewed the position for the 2012/13 accounts and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

    - The relative lack of materiality of the financial size of the group members compared with that of the council.

    - The low level of financial risk to the county council from its involvement with the group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1.

    - The very low level of involvement of the group members in delivering the council's statutory or significant core services.

- The 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 2013. After consideration no requirement had arisen in 2012/13

- The fixed assets figure includes properties valued at some £489 million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. The decision to include these assets within the county council's Balance Sheet is a critical judgment which enables the county council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

4. Accounting Standards that have been issued but have not yet been adopted

The following amendment to accounting standards has been issued on or before 1 January 2013 but not yet adopted by the Code.

Amendments to IAS19 (employee benefits) will mean that a net interest cost will be calculated using one interest rate; previously two separate interest rates one for costs and one for expected returns on assets were used. Also actuarial gains and losses are to be renamed "re-measurements" and "re-measurements liabilities" and will need to be split between the effect of changes in financial assumptions and demographic assumptions.

This will impact on the CIES and will therefore require restatement of the 2012/13 figures. The impact will be notional and is likely to be in the region of £15m.

There will also be changes to the pension assets and liability disclosures. Overall the volume of disclosures will increase, reflecting the importance of pensions, the requirement for transparency and the basis on which these are disclosed.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	The average balance of sundry debtors during the year was £37.5million. A review of significant balances suggested that an impairment of doubtful debts of 22.7% was appropriate. However in the current economic climate it is not certain that such an allowance would be sufficient	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £8.5million to be set aside as an allowance.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the council with expert advice about the assumptions to be applied. (see note 45)	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 £246 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £32m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £59m.
Property, Plant and Equipment (PPE)	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 25)	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE

6. Statutory charge for the repayment of debt

Our accounts must include a charge for the repayment of debt. This charge must be at least 4% of our adjusted capital financing requirements at the start of the year. For 2012/13 this charge is £28.9m (£26.2m in 2011/12).

£28.8m of this is shown within the Comprehensive Income and Expenditure Statement. Blackpool Council pay a contribution towards the capital financing charges related to the Waste PFI site, which in 2012/13 was £0.1m (also £0.1m in 2011/12). This is deducted from the Minimum Revenue Provision figure in the Comprehensive Income and Expenditure Statement.

As shown in note 7 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 £7.9m in 2012/13 (2011/12 £17.9m).

Notes to the Movement in Reserves Statement

7. Adjustments between Funding Basis and Regulation

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.

2012/13 Adjustments

	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 of non current assets	(53.2)	-	-	53.2
-Revaluation losses on Property Plant and Equipment(charged to SDPS)	(13.3)	-	-	13.3
- Amortisation of intangible assets	(1.8)			1.8
-Movements in the fair value of Investment Properties	(0.2)	-	-	0.2
-Revenue expenditure funded from capital under statute	(16.9)	-	-	16.9
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(49.2)	-	-	49.2
-Revenue Contribution to Finance Capital Expenditure	28.1	-	-	(28.1)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	28.9	-	-	(28.9)
-Statutory provision for the financing of capital investment (MRP PFI)	7.9	-	-	(7.9)

Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to CIES	52.1	-	(52.1)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	30.3	-	81.0	(111.3)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	3.7	(3.7)	-	-
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**	(6.0)	-	-	6.0
Adjustments involving the Pensions Reserve:				
Employer's pensions contributions and direct payments to pensioners payable in the year	76.9	-	-	(76.9)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(91.2)	-	-	91.2
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1.2)	-	-	1.2
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	0.3	-	-	(0.3)
Total adjustments	**(4.8)**	**(3.7)**	**28.9**	**(20.4)**

2011/12 Comparative Year Adjustments

	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 of non current assets	*(43.1)	-	-	43.1
-Revaluation losses on Property Plant and Equipment(charged to SDPS)	(16.5)	-	-	16.5
- Amortisation of intangible assets	*(0.3)			0.3
-Revenue expenditure funded from capital under statute	(11.3)	-	-	11.3
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(106.1)	(0.8)	-	106.9
-Revenue Contribution to Finance Capital Expenditure	15.7	-	-	(15.7)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	26.2	-	-	(26.2)
-Statutory provision for the financing of capital investment (MRP PFI)	17.9	-	-	(17.9)
Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to CIES	95.2	-	(95.2)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	31.4	-	30.5	(61.9)
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	-	2.1	-	(2.1)

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**	2.1	-	-	(2.1)
Adjustments involving the Pensions Reserve:				
Employers' pensions contributions and direct payments to pensioners payable in the year	81.0	-	-	(81.0)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(79.9)	-	-	79.9
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	0.4	-	-	(0.4)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8.5	-	-	(8.5)
Total adjustments	**21.2**	**1.3**	**(64.7)**	**42.2**

* Figure restated due to change in presentation of data.

** The significant variance on the amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements; relates to the net of premiums and discounts removed from the Comprehensive Income and Expenditure Statement to be amortised over the lifetime of the repaid loans in accordance with current accounting standards; and the reclassification of unamortised premiums of premature debt repayment from deferred liabilities into Financial Instruments Adjustments Account

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the County fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet County fund expenditure in 2012/13.

	2012-13				Comparative Year 2011-12 (restated)			
	Opening balance	Net contributions to and from reserves (use of reserves)	Transfers between reserves	Closing balance	Opening balance	Net contributions to and from reserves (use of reserves)	Transfers between reserves	Closing balance
Revenue Reserves	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Strategic Investment Reserve	(59.0)	(9.4)	26.7	(41.7)	-	1.0	(60.0)	(59.0)
Service Transformation Reserve	(26.8)	(7.0)	24.6	(9.2)	(34.1)	5.1	2.2	(26.8)*
Voluntary Severance reserve	(11.3)	3.3	-	(8.0)	(20.0)	-	8.7	(11.3)
Business Rates Volatility reserve	(5.0)	-	-	(5.0)	-	(5.0)	-	(5.0)
Equal Pay Review Reserve	(4.6)	(1.7)	1.8	(4.5)	(9.6)	5.0	-	(4.6)
Downsizing Reserve	-	(3.8)	(33.9)	(37.7)	-	-	-	-
Schools Reserves	(54.0)	1.0	1.5	(51.5)	(51.2)	(2.8)	-	(54.0)
Schools DSG Central Items	(16.5)	(5.0)	7.0	(14.5)	(6.1)	(7.7)	(2.7)	(16.5)
Directorate Reserves	(12.0)	0.5	0.3	(11.2)	(17.0)	(7.0)	12.0	(12.0)
Other Revenue Reserves	(58.9)	(12.4)	(0.8)	(72.1)	(47.8)	12.7	(23.8)	(58.9)
Revenue Reserves Subtotal	**(248.1)**	**(34.5)**	**27.2**	**(255.4)**	**(185.8)**	**1.3**	**(63.6)**	**(248.1)**
Trading Operations Reserve	**(2.9)**	**(0.4)**	**0.2**	**(3.1)**	**(3.7)**	**0.6**	**0.2**	**(2.9)**
Capital Funding Reserve	**(13.1)**	**5.8**	**(36.4)**	**(43.7)**	**(11.8)**	**(2.1)**	**0.8**	**(13.1)**

*Prior year adjustment (see note 2)

9. Reserves

Under the Local Government (Miscellaneous Provisions) Act 1976, we can hold reserves to help us introduce policies in the future. Details of these reserves at 31 March 2013 are set out below:

Revenue reserves

The county council's revenue reserves are described in the table below:

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.
Service Transformation Reserve This reserve consists of amounts set aside for up front investment that will enable ongoing improvement in efficiency and deliver future savings.
Voluntary Severance Reserve This reserve has been set up to provide for future costs that will arise from the restructuring of the organisation.
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.
Equal Pay Review Reserve This reserve is set aside for the costs of outstanding equal pay claims and reviews.
Downsizing Reserve This reserve is set aside to support the county council as it continues to deliver its agreed savings in 2013/14, and develops its strategy to reduce costs over the following four years.
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 2012/13, 7 schools converted to academies reducing school balances by £1.707m, 307 Schools had an in year deficit and 288 schools operated an in year surplus. At the 31st March 2013, 27 schools had deficit balances.
Schools DSG Central Items This is the amount carried forward from the schools budget for central items, to be used in support of the Schools Budget in future years.
Directorate Reserves These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates.
Other Revenue Reserves We have a number of other reserves held for future policy purposes or to cover contingencies, including adult social care transition and early intervention, children's social care and buildings repair and maintenance.

Trading operations reserve This reserve is to fund one off revenue costs associated with trading activities.	
Capital Funding Reserves These reserves comprise of revenue monies earmarked to support committed capital projects in the county council capital programme.	
County Fund This is 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.	

10. Other Operating Expenditure

	2012/13 £m	2011/12 £m
Levies	0.8	0.8
(Gains)/losses on the disposal of non current assets	45.5	106.1
Total	**46.3**	**106.9**

11. Financing and Investment Income and Expenditure

	2012/13 £m	2011/12 £m
Interest payable and similar charges	16.0	17.0
Interest payable on PFI unitary payments	47.8	55.5
Reclassification*	8.2	-
Expected return on pension assets	31.5	23.2
Interest receivable and similar income	(28.2)	(47.5)
Changes in fair value of investment properties	0.2	-
Gain/loss on trading accounts (not applicable to services)	(0.5)	(2.7)
Total	**75.0**	**45.5**

* Reclassification of unamortised premiums of premature debt repayment from deferred liabilities into Financial Instruments Adjustments Account

12. Taxation and Non Specific Grants Income

	2012/13 £m	2011/12 £m
Council Tax Income	424.7	425.2
Non Domestic Rates	310.9	254.9
Revenue Support Grant	7.0	78.8
Early Intervention Grant	49.6	*47.9
Council Tax Freeze Grant	10.6	10.6
Recognised Capital grants and contributions	82.4	126.5
Total	**885.2**	**943.9**

* Restated 2011/12 comparatives since the presentation of the early intervention grant has changed to reflect the non specific nature of the grant. Previously the early intervention grant was included in note 14 Grant Income

13. 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 detailed in the table on the following page:

2012/13	**Adult & Community Services**	**Children & Young People**	**Environment**	**Other Directorates**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	91.1	51.5	47.2	119.5	**309.3**
Government grants	85.0	849.6	12.3	29.5	**976.4**
Total Income	176.1	901.1	59.5	149.0	**1,285.7**
Employee expenses	101.1	684.9	34.9	65.4	**886.3**
Other service expenses	393.3	337.0	176.5	171.9	**1,078.7**
Support service recharges	5.4	44.6	(4.8)	(12.9)	**32.3**
Total Expenditure	499.8	1,066.5	206.6	224.4	**1,997.3**
Net Expenditure	**323.7**	**165.4**	**147.1**	**75.4**	**711.6**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	**711.6**
Add services not included in main analysis	(12.0)
Add amounts not reported to management	63.9
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(32.6)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**730.9**

2012/13	**Directorate Analysis**	**Services & Support**	**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**	**£m**
Fees, charges and other service income	309.3	0.6	-	-	**309.9**	15.8	**325.7**
Interest and investment income	-		-	-	**-**	127.6	**127.6**
Income from council tax	-		-	-	**-**	424.7	**424.7**
Government grants and contributions	976.4	33.8	-	(87.4)	**922.8**	460.5	**1,383.3**
Total Income	1,285.7	34.4	-	(87.4)	**1,232.7**	1,028.6	**2,261.3**
Employee expenses	886.3	-	-	-	**886.3**	-	**886.3**
Other service expenses	1,078.7	22.4	-	(120.0)	**981.1**	11.9	**993.0**
Support service recharges	32.3	-	-	-	**32.3**	-	**32.3**
Depreciation, amortisation and impairment	-	-	63.9	-	**63.9**	-	**63.9**
Interest payments	-	-	-	-	**-**	63.8	**63.8**
Precepts and levies	-	-	-	-	**-**	139.8	**139.8**
Gains or losses on disposal of fixed assets	-	-	-	-	**-**	49.2	**49.2**
Total Expenditure	1,997.3	22.4	63.9	(120.0)	**1,963.6**	264.7	**2,228.3**
Surplus or Deficit on the provision of services	711.6	(12.0)	63.9	(32.6)	**730.9**	(763.9)	**(33.0)**

2011/12	**Adult & Community Services**	**Children & Young People**	**Environment**	**Other Directorates**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	84.8	58.4	30.1	98.9	**272.2**
Government grants	76.2	*828.6	7.6	0.5	**912.9**
Total Income	161.0	887.0	37.7	99.4	**1,185.1**
Employee expenses	101.6	690.1	26.6	59.3	**877.6**
Other service expenses	380.1	377.9	164.1	79.2	**1,001.3**
Support service recharges	16.4	15.1	5.6	(13.9)	**23.2**
Total Expenditure	498.1	1,083.1	196.3	124.6	**1,902.1**
Net Expenditure	**337.1**	**196.1**	**158.6**	**25.2**	**717.0**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	**717.0**
Add services not included in main analysis	-
Add amounts not reported to management	(3.9)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
Net Cost of Services in Comprehensive Income and Expenditure Statement	**713.1**

2011/12	**Directorate Analysis £m**	**Services & Support £m**	**Amounts not reported to management for decision making £m**	**Amounts not included in the I&E £m**	**Allocation of Recharges £m**	**Cost of Services £m**	**Corporate Amounts £m**	**Total £m**
Fees, charges and other service income	**299.4	-	7.5	(2.9)	(32.2)	**271.8**	6.9	**278.7**
Interest and investment income	-	-	-	-	-	**-**	160.7	**160.7**
Income from council tax	-	-	-	-	-	**-**	425.2	**425.2**
Government grants and contributions	*913.6	-	-	-	-	**913.6**	*518.7	**1,432.3**
Total Income	1,213.0	-	7.5	(2.9)	(32.2)	**1,185.4**	1,111.5	**2,296.9**
Employee expenses	876.6	-	28.9	-	(27.5)	**878.0**	-	**878.0**
Other service expenses	970.5	-	-	(9.2)	(25.4)	**935.9**	4.2	**940.1**
Support service recharges	(5.4)	-	-	-	24.5	**19.1**	-	**19.1**
Depreciation, amortisation and impairment	-	-	1.3	65.5	(1.3)	**65.5**	-	**65.5**
Interest payments	-	-	-	-	-	**-**	72.5	**72.5**
Precepts and levies	-	-	-	-	-	**-**	137.2	**137.2**
Gains or losses on disposal of fixed assets	-	-	-	-	-	**-**	106.1	**106.1**
Total Expenditure	1,841.7	-	30.2	56.3	(29.7)	**1,898.5**	320.0	**2,218.5**
Surplus or Deficit on the provision of services	628.7	-	22.7	59.2	2.5	**713.1**	(791.5)	***(78.4)**

* Restated 2011/12 comparatives to reflect the non specific nature of the early intervention grant

**See Prior year adjustment (Note 2)

14. Grant Income

The authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2012/13

	2012/13 £m	2011/12 (restated)* £m
Credited to Taxation and Non Specific Grant Income		
Capital Grants		
Department of Education	43.1	57.3
Department of Transport	28.9	30.1
Department for Communities and Local Government	-	19.4
Other Grants	10.4	19.7
Total Credited to Recognised Grants and Contributions	**82.4**	**126.5**
Credited to Services - All Services		
Department of Education **	789.7	800.7
Department of Health	56.0	33.5
Other - Central Government Departments	43.0	36.7
Other Grants	8.8	7.2
Contributions		
Other Contributions	1.1	4.5
Total	**898.6**	**882.6**

*Since the presentation of grant income has been simplified, comparatives have been restated also the early intervention grant has now been included in note 12 Taxation and Non Specific Grants Incomes in order to reflect the non specific nature of the grant

** Figure includes Dedicated Schools Grant (£744.7m) (£748.4 2011/12)

The council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows;

	2012/13 £m	2011/12 £m
Revenue Grants and Contributions		
Department of Health	-	7.1
Department for Communities and Local Government	-	5.0
Skills Funding Agency	2.1	2.1
Other Grants	1.6	1.3
Contributions		
Advance Payment Deposits	1.2	1.1
Contributions from Developers	1.2	1.3
Various Other Contributions	-	1.5
Total	**6.1**	**19.4**

15. Dedicated Schools Grant

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

This includes:

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

The following table shows how DSG was used for 2012/13:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2012/13 before academy recoupment			(807.8)
Academy figure recouped for 2012/13			63.0
Total DSG after Academy recoupment for 2012/13			(744.8)
Brought forward from 2011/12			(16.5)
Agreed initial budgeted distribution in 2012/13	(71.5)	(689.8)	(761.3)
In year adjustments	-	-	-
Final budgeted distribution for 2012/13	(71.5)	(689.8)	(761.3)
Less actual central expenditure	53.0	-	53.0
Less actual ISB deployed to schools	-	689.8	689.8
Carry forward to 2013/14	**(18.5)**	**-**	**(18.5)**

NB: The Individual Schools Budget, and spending by schools, is funded by sources other than Dedicated Schools Grant, as set out on the following page:

	2012/13 £m	2011/12 Restated £m
Dedicated Schools Grant	(689.8)	*(699.9)
Education Funding Agency	(17.9)	(19.5)
Pupil Premium Grant	(21.7)	(11.8)
Allocations from Central Items (Contingency, Schools in Difficulty etc)	(3.3)	(5.5)
	(732.7)	(736.7)
Less Individual Schools Budget total expenditure	734.9	733.9
Contributions to Individual School Balances	2.2	(2.8)

* Prior year comparatives have been restated to show only the dedicated schools grant; rather than showing the dedicated schools grant net of the pupil premium grant

16. Council Tax

Each district council (the "billing authority") collects council tax on our behalf and pays it into their collection fund. We then levy a precept on those collection funds to raise the council's council tax income. We also receive a share of any surplus or deficit in respect of previous year's council tax collections.

	2012/13 £m	2011/12 £m
Precept from district council collection funds	(426.2)	(426.3)
Collection fund (surplus)/losses	0.3	1.5
Budgeted council tax for the year paid by billing authorities	(425.9)	(424.8)
Billing authorities collection fund accruals	1.2	(0.4)
Total Council Tax income shown in the accounts	**(424.7)**	**(425.2)**

17. Pooled budgets

Councils and primary care trusts (PCTs) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below.

Lancashire County Council and three PCTs (North Lancashire, East Lancashire & Central Lancashire) for the integrated commissioning of services for adults with learning disabilities:-

	2012/13 £m	2011/12 £m
Funding provided to the Pooled Budget		
The council	105.6	105.8
The trusts	9.2	9.4
Other	8.9	9.5
	123.7	124.7
Expenditure met from the Pooled Budget		
The council	122.5	122.0
The trusts	9.8	10.0
	132.3	132.0
Net Surplus/(Deficit) arising on the Pooled Budget during the year:	(8.6)	(7.3)
Council Share of the Net Surplus/(Deficit):	(8.1)	(6.8)

18. External Audit costs

The total amount payable for external audit services carried out by the appointed auditor in 2012/13 was £0.15million (£0.23million in 2011/12).

Within the above totals, fees payable to the external auditor for the certification of grant claims and returns for the year totalled £3,700 in 2012/13 (£6,651 in 2011/12*)

* 2011/12 figure has been re-stated. This now reflects the correct amount paid.

19. Members' Allowances

The council paid the following amounts to members of the council during the year:

	2012/13	2011/12
	£m	£m
Basic allowances	0.8	0.8
Special responsibility allowances	0.3	0.3
Expenses	0.1	0.1
Total	**1.2**	**1.2**

Details of the allowances paid can be found on the council's website: www.lancashire.gov.uk

20. Senior Officers Remuneration

Disclosure of senior officers' remuneration 2012/13: Salaries over £150k

Post, title and name	Salary (including fees and allowances)	Bonus	Benefits in kind *	Total remuneration excluding pension contributions 2012/13	Pension contributions	Total remuneration including pension contributions 2012/13
	£	£	£	£	£	£
Chief Executive – P Halsall	194,655	-	5,300	199,955	36,400	236,355
Director of Change Management and Transformation – D McElhinney	159,675	116,213	10,643	286,531	-	286,531

* Benefits in kind relate either to lease car payments, or a cash equivalent.

The Director of Change Management and Transformation is seconded from the County Council to One Connect Ltd, where until the 31 August 2013 he held the post of Chief Executive Officer of One Connect Ltd.

This post is undertaken on a part-time basis. On the 28 April 2011 Lancashire County Council and Liverpool City Council agreed joint working arrangements for the appointment of David McElhinney to the CEO posts of both Liverpool Direct Limited (LDL), and One Connect Limited (OCL).

This agreement sets out that the CEO will be an employee of both Councils, seconded to LDL and OCL respectively, and holding two contracts of employment, with the anticipation the post of CEO will be split 50:50 over the course of the year between OCL and LDL.

The 2011/12 disclosure has been restated to take into account the remuneration payment made to the Director of Change Management and Transformation of £324,567. This payment was not made until June 2013.

Disclosure of senior officers' remuneration 2011/12: Salaries over £150k

Post, title and name	Salary (including fees and allowances) £	Bonus £	Expense allowance £	Benefits in kind * £	Total remuneration excluding pension contributions 2011/12 £	Pension contributions - **Restated £	Total remuneration including pension contributions 2011/12 £
Chief Executive – P Halsall	194,790	-	69	5,300	200,159	35,622	235,781
Director of Change Management and Transformation – D McElhinney	135,338	189,229	-	-	324,567	-	324,567

* Benefits in kind relate either to lease car payments, or a cash equivalent.

** Due to the in year change of payroll systems, certain groups of Pension contributions were reported as being under or over stated. This was immediately corrected and pension contributions have been restated.

Disclosure of senior officers' remuneration 2012/13: Remuneration £50k to £150k

Post	Notes	Salary (including fees and allowances) £	Expense allowance £	Benefits in kind * £	Total remuneration excluding pension contributions 2012/13 £	Pension contributions £	Total remuneration including pension contributions 2012/13 £
Executive Director for Children & Young People	**	129,201	-	8,120	137,321	24,161	161,482
Executive Director of Adults and Community Services	**	129,201	-	1,974	131,175	24,161	155,336
County Secretary & Solicitors		129,201	-	1,375	130,576	24,161	154,737
Executive Director for the Environment		129,201	-	5,300	134,501	24,161	158,662
County Treasurer		110,000	-	5,300	115,300	20,570	135,870
Total		**626,804**	**-**	**22,069**	**648,873**	**117,214**	**766,087**

* Benefits in kind relate either to lease car payments, or a cash equivalent

** On 22 of March 2013; The Executive Director of Adults and Community Services left employment at Lancashire County Council; The Executive Director for Children and Young People took up the post of Executive Director for Adult, Community Services and Public Health; and a new Interim Executive Director for Children and Young People was appointed. The salary for the new Interim Director is not included in this table, but is included within the main banding table for 2012/13 below.

Disclosure of senior officers' remuneration 2011/12: Remuneration £50k to £150k

Post	Salary (including fees and allowances)	Expense allowance	Benefit in Kind *	Total remuneration excluding pension contributions 2011/12	**Pension contributions (Restated)	Total remuneration including pension contributions 2011/12
	£	£	£	£	£	£
Executive Director for Children & Young People	129,201	79	7,415	136,695	23,644	160,339
Executive Director of Adults and Community Services	129,201	3	6,119	135,323	23,644	158,967
County Secretary & Solicitors	129,201	35	5,595	134,831	23,644	158,475
Executive Director for the Environment	126,624	-	5,300	131,924	23,172	155,096
County Treasurer	106,673	-	5,300	111,973	19,521	131,494
Total	**620,900**	**117**	**29,729**	**650,746**	**113,625**	**764,371**

* Benefits in kind relate either to lease car payments, or a cash equivalent.

** Due to the in year change of payroll systems, certain groups of Pension contributions were reported as being under or over stated. This was immediately corrected and pension contributions have been restated.

Number of Employees – 2012/13

Remuneration Band (£)	LCC Non teaching staff	Seconded staff	Teaching staff	County Council Network Staff
50,000 - 54,999	67	16	311	-
55,000 - 59,999	35	7	211	-
60,000 - 64,999	31	5	101	-
65,000 - 69,999	19	1	38	-
70,000 - 74,999	2	-	32	1
75,000 - 79,999	1	-	15	-
80,000 - 84,999	4	-	5	-
85,000 – 89,999	1	1	10	-
90,000 - 94,999	5	-	9	-
95,000 - 99,999	7	-	3	-
100,000 - 104,999	1	-	1	1
105,000 - 109,999	-	2	3	-
110,000 - 114,999	-	-	-	-
115,000 - 119,999	-	-	-	-
120,000 - 124,999	1	-	-	-
125,000 - 129,999	-	-	-	-
130,000 - 134,999	-	-	-	-
135,000 - 139,999	-	-	-	-
140,000 - 144,999	-	-	-	-
145,000 - 149,999	-	-	-	-
150,000 - 154,999	-	-	-	-
155,000 - 159,999	1	-	-	-
TOTAL	**175**	**32**	**739**	**2**

Note - This table does not include any of the Senior Management Team highlighted in the tables above, with the exception of the new Interim Executive Director for Children and Young People as the post was only taken up on 22 March 2013.

Note - Seconded Staff includes staff working for One Connect Limited (OCL) and Lancashire County Developments Ltd (LCDL).

Note - County Council Network staff are staff working for and paid for by the county council's network who are "hosted" for pay and rations by Lancashire County Council

Number of Employees – 2011/12 (*Restated)

Remuneration Band (£)	LCC Non teaching staff	Seconded staff	Teaching staff	County Council Network Staff
50,000 - 54,999	75	9	327	-
55,000 - 59,999	52	5	209	-
60,000 - 64,999	44	5	73	-
65,000 - 69,999	22	-	40	-
70,000 - 74,999	8	-	28	1
75,000 - 79,999	1	1	15	-
80,000 - 84,999	4	-	9	-
85,000 – 89,999	1	1	9	-
90,000 - 94,999	7	-	8	-
95,000 - 99,999	9	-	3	-
100,000 - 104,999	2	1	-	1
105,000 - 109,999	-	-	3	-
110,000 - 114,999	-	-	-	-
115,000 - 119,999	1	-	-	-
120,000 - 124,999	-	-	-	-
125,000 - 129,999	-	-	-	-
130,000 - 134,999	-	-	-	-
135,000 - 139,999	-	-	-	-
140,000 - 144,999	-	-	-	-
145,000 - 149,999	-	-	-	-
150,000 - 154,999	1	-	-	-
TOTALS	**227**	**22**	**724**	**2**

*Since the presentation of the note has changed to include County Council network staff the prior year figures have been restated

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

Note - Seconded Staff includes staff working for One Connect Limited (OCL) and Lancashire County Developments Ltd (LCDL).

Note - County Council Network staff are staff working for and paid for by the county council's network who are "hosted" for pay and rations by Lancashire County Council

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**	
	2011/12	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**
							£000	**£000**
£0 - £20,000	12	5	189	172	201	177	1,743	1,140
£20,001 - £40,000	1	1	93	36	94	37	2,673	1,022
£40,001 - £60,000	-	-	54	12	54	12	2,671	560
£60,001 - £80,000	-	-	25	3	25	3	1,776	216
£80,001 - £100,000	-	-	28	-	28	-	2,494	-
£100,001 - £150,000	-	-	26	3	26	3	3,211	363
£151,000 - £200,000	-	-	5	1	5	1	871	158
£201,000 - £250,000	-	-	3	-	3	-	699	-
£250,001 - £300,000	-	-	-	-	-	-	-	-
£300,001 - £350,000	-	-	2	-	2	-	606	-
Total	**13**	**6**	**425**	**227**	**438**	**233**	**16,744**	**3,459**

21. Private Finance Initiative (PFI) Schemes

Fleetwood Sports College (formerly Fleetwood High School)

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

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

The 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.

Payments remaining to be made under the PFI contract at 31 March 2013(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payable in 2013/14	0.7	0.1	1.0	1.8
Payable within two to five years	2.0	1.5	3.5	7.0
Payable within six to ten years	2.6	2.9	3.2	8.7
Payable within eleven to fifteen years	2.5	4.0	1.2	7.7
Total	**7.8**	**8.5**	**8.9**	**25.2**

To help finance the scheme we received the following income:

	2012/13 £m	**2011/12** £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.

- 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 two 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 at 31 March 2013 for the four phases above (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2013/14	8.0	4.4	15.1	27.5
Payable within two to five years	35.0	18.2	56.7	109.9
Payable within six to ten years	47.9	28.3	61.2	137.4
Payable within eleven to fifteen years	51.5	38.8	47.2	137.5
Payable within sixteen to twenty years	49.1	60.8	27.6	137.5
Payable within twenty one to twenty five years	12.7	22.6	2.9	38.2
Grand Total	**204.2**	**173.1**	**210.7**	**588.0**

To help finance the scheme we received the following income:

	2012-13	2011-12
	£m	£m
PFI grant from the government	20.6	20.6
Contributions from the schools	7.9	7.5
Contributions from the local authority	0.1	0.1
Grand Total	**28.6**	**28.2**

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:

	2012/13	2011/12
	£m	£m
Balance outstanding at start of year	(186.3)	(190.6)
Payments during the year	4.6	4.3
Balance outstanding at year end	(181.7)	(186.3)

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, (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 PFI's are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, by either the 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 Scheme

Lancashire County Council signed a PFI contract with Global Renewables Lancashire (GRL) Limited on 2 March 2007. The works and services to be provided under the contract are procured by Lancashire County Council. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The contract covers delivery of contract waste, treatment and diversion from landfill at the Farington Site and Thornton Site as well as the subsequent disposal. The waste handled/processed is household, commercial, and green waste but not industrial waste. In addition an Education Centre and offices are in operation on the Farington site which the contractor also provides and manages along with other "soft services" such as tree planting, waste minimisation initiatives and developing local markets to use the end products from processed waste.

The waste treatment facilities have been built and are in operation. The contract will run for 25 years from the date the final waste treatment facility became fully operational and the total payments to GRL will be around £2.1 billion over the contract period. The county council pays a unitary payment which consists of a fixed and a variable element, both of which are subject to inflation. This payment can be reduced if the contractor fails to meet agreed targets. The capital costs of the PFI contract are £263 million. At the end of the contract the Waste PFI assets will be owned by Lancashire County Council.

The facilities were subject to a commissioning and then testing phase (acceptance test) during 2010 and 2011. The testing period was inconclusive as it was not possible to measure diversion. The council is currently working with GRL on an alternate method of 'signing' the plants off.

Both sites are now in deemed service commencement and as a result, full service payments commenced in 2011/12. From an accounting point of view this also means that the assets are no longer treated as off Balance Sheet but now form part of the county council's assets.

Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability/performance deductions) are as follows

	Payments for Services £m	Repayment of liability £m	Interest Charges £m	Total Payments due £m
Payable in 2013/14	22.7	3.1	25.4	51.2
Payable within two to five years	102.3	13.3	98.2	213.8
Payable within six to ten years	150.4	27.1	112.2	289.7
Payable within eleven to fifteen years	181.4	42.2	94.9	318.5
Payable within sixteen to twenty years	211.7	75.3	64.7	351.7
Payable within twenty-one to twenty-five years	146.6	67.9	15.2	229.7
Total	**815.1**	**228.9**	**410.6**	**1,454.6**

The significant risks that the council is exposed to during this PFI contract are in relation to waste arisings and composition, diversion rates and inflation. Diversion rates for diversion from landfill were bid by GRL in their original contract tender. The annual diversion target rates default to the previous year's actual performance rates as long as the contractor demonstrates it has operated the sites within the standards outlined in a number of predefined key tests. The payments/deductions are based on the tonnage variances between target/actual tonnages, landfill costs and contract transport rates.

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

	2012/13 £m	**2011/12 £m**
Balance outstanding at start of year	(232.3)	(245.9)
Payments during the year	3.4	13.6
Balance outstanding at year end	(228.9)	(232.3)

The county council is currently working with GRL and are 1 year into a 2 year 'optimisation strategy'. During these 2 years the diversion targets has been locked, thus reducing risk for both the council and GRL when budget forecasting. At the end of the concession period the council may retender for the provision of the Services or request the contractor to transfer all of its right, title and interest in and to the assets to the council.

There is provision within the project agreement for the termination of the contract under certain conditions by either the council or the contractor. This may be in the form of voluntary termination by the council, termination by the contractor on council default or termination by the council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contract.

22. 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.

	2012/13 £m	2011/12 £m
Opening Capital Financing Requirement	1,111.6	837.3
Write down deferred liability 2011-12	(0.5)	-
Capital investment		
Property, Plant and Equipment	115.0	376.3
Intangible Assets	7.4	10.5
Revenue Expenditure Funded from Capital Under Statute	16.9	11.3
Sources of Finance		
Capital receipts	-	(2.1)
Government grants and other contributions	(111.3)	(61.8)
Sums set aside from revenue:		
Direct revenue contributions	(28.1)	(15.8)
Write down of PFI liability	(7.9)	(17.9)
Minimum Revenue Provision (MRP)/ loans fund principal	(28.9)	(26.2)
Closing Capital Financing Requirement	**1,074.2**	**1,111.6**
Explanation of movements in year:		
Increase/decrease in underlying need to borrowing (supported by government financial assistance)	(22.5)	(18.2)
Increase in underlying need to borrowing (unsupported by government financial assistance)	(6.4)	64.6
Write down PFI Liability *	(8.5)	(18.0)
Assets acquired under Private Finance Initiative contracts	-	245.9
Increase (decrease) in Capital Financing Requirement	**(37.4)**	**274.3**

* This includes £0.5m deferred liability write down

Future capital spending commitments

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

Our capital spending commitment in 2013-14 and later years for projects that commenced prior to 2012-13 is £221 million, of which £124 million will be spent in 2013-14 and £97 million 2014-15 onwards. These include projects which have started in respect of design and planning but no construction contract has been let and therefore there is no legal obligation to complete the project. Our legally committed capital expenditure as at 31 March 2013 is £79.8 million as detailed below:

	2012/13 (£m)	**2011/12 (£m)**
Adult and Community Services	2.7	1.6
Children and Young People	72.8	27.9
Environment	3.0	2.9
Other Directorates	1.3	1.6
Total	**79.8**	**34.0**

23. Trading operations – Lancashire County Commercial Group

Our three major trading operations are:

- Care Services;
- Catering Services; and
- Operational Services.

In 2012/13 these trading operations made a total operating surplus of £0.6 million as detailed below:

	Turnover	**Spending**	**2012/13 (Surplus)/ deficit**	**2011/12 (Surplus)/ deficit**
	£m	**£m**	**£m**	**£m**
Care Services	(22.1)	23.3	1.2	0.9
Catering Services	(23.1)	22.6	(0.5)	(1.2)
Operational Services	(53.7)	52.4	(1.3)	(3.2)
Total	**(98.9)**	**98.3**	**(0.6)**	**(3.5)**

More information on our major trading operations' services for 2012/13 is given below.

Care Services

At the 1 April 2013 Care Services was providing:

- residential services from 17 homes for older people;
- rehabilitation services from 9 of these homes;
- day care from 14 day centres; and
- an assessment and reablement service providing assessment, practical and personal care to help people who have been ill or injured live independently at home for as long as possible.

Catering Services provided:

- school catering services for approximately 560 schools; and
- staff and civic catering from four outlets

Operational Services provides:

- Fleet Services – purchase, disposal, management, maintenance and repair of county council vehicles and repair and maintenance of Lancashire Fire and Rescue vehicles;
- Travel Care – caring and accessible bus services
- Building Cleaning services;
- School Crossing Patrol services; and
- Passenger Assistant services

Highways and Environmental services

The following services, which were previously managed by LCCG, with a value of £59m, were transferred into the Environment Directorate at 1 April 2012:

- repairing and maintaining roads and bridges
- road surfacing and street lighting for contracts won in competition and through the Highways Works Contract
- routine maintenance for grounds and playing fields
- creating new landscaping schemes and sports facilities

The final accounts for 2012/13 show a turnover of £98.9 million.

24. 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 £13.3m has been placed on the collection.

Lancashire also holds a special Libraries Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the library service they are to be treated as a heritage asset and a valuation made. Again, these valuations have been made by internal professional staff and it is estimated that the collection is valued at £14.5m.

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 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 (note h) 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 2012/13.

25. Property, Plant and Equipment

The fixed assets figure includes properties valued at some £489 million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the county council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

With the recent economic downturn consideration was made with respect to the value of the fixed assets. After taking into account various factors it was decided that the fixed assets figure in the balance sheet represents the value of the assets held.

2012/13	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 2012	2,152.5	65.9	572.3	12.8	**2,803.5**
Additions	58.6	5.5	50.9	-	**115.0**
De-recognition – Disposals	(51.1)	(0.1)	(0.1)	-	**(51.3)**
De-recognition – Others	(16.5)	-	-	(7.1)	**(23.6)**
Revaluations increases/(decreases) recognised in Revaluation Reserve	(23.8)	-	-	-	**(23.8)**
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(13.7)	-	-	-	**(13.7)**
Assets reclassified	3.4	-	-	(5.0)	**(1.6)**
At 31 March 2013	**2,109.4**	**71.3**	**623.1**	**0.7**	**2,804.5**
Depreciation and Impairments					
At 1 April 2012	76.0	28.0	51.8	-	**155.8**
Depreciation charge for 2012/13					
Depreciation written out to the Surplus/Deficit on Provision of Services	31.7	7.7	13.8	-	**53.2**
De-recognition – Disposals	(2.1)	-	-	-	**(2.1)**
De-recognitions – Others	(14.8)	-	-	-	**(14.8)**
At 31 March 2013	**90.8**	**35.7**	**65.6**	**-**	**192.1**
Net Book Value at 31 March 2013	**2,018.6**	**35.6**	**557.5**	**0.7**	**2,612.4**
Net Book Value at 31 March 2012	**2,076.5**	**37.8**	**520.6**	**12.8**	**2,647.7**

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.

2011/12	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 2011	1,953.7	60.3	519.0	14.5	**2,547.5**
Additions	319.0	5.6	53.3	12.8	**390.7**
De-recognition – Disposals	(110.9)	-	-	-	(110.9)
De-recognition – Others	(3.7)	-	-	(14.5)	(18.2)
Revaluations increases/(decreases) recognised in Revaluation Reserve	10.7	-	-	-	**10.7**
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(16.3)	-	-	-	**(16.3)**
At 31 March 2012	**2,152.5**	**65.9**	**572.3**	**12.8**	**2,803.5**
Depreciation and Impairments					
At 1 April 2011	59.2	21.2	39.3	-	**119.8**
Depreciation charge for 2011/12					
Depreciation written out to the Surplus/Deficit on Provision of Services	23.9	6.8	12.4	-	**43.1**
De-recognition – Disposals	(4.1)	-	-	-	**(4.1)**
De-recognitions – Others	(3.0)	-	-	-	**(3.0)**
At 31 March 2012	**76.0**	**28.0**	**51.7**	**-**	**155.8**
Net Book Value at 31 March 2012	**2,076.5**	**37.8**	**520.6**	**12.8**	**2,647.7**
Net Book Value at 31 March 2011	**1,894.5**	**39.1**	**479.7**	**14.5**	**2,427.8**

Effects of Changes in Estimates

In 2012/13 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 year up to over 50 years, namely:

Life grouping	Life used for depreciation
0 up to 10 years	specific asset life used
10-20 years	10
21-30 years	20
30-40 years	30
40-50 years	40
Over 50 years	50

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

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

Fixed Asset Valuation

The property valuations are undertaken by appropriately qualified staff within the property group of the county council.

All valuations have been undertaken in accordance with the practice statements, guidance notes and valuation information papers of the Royal Institution of Chartered Surveyors' (RICS) Valuation Standards (The Red Book) and in accordance with CIPFA regulations and currentCode 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. In 2012/13 365 properties were revalued which equates to approximately 22% of all the properties held.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. Valuations are undertaken internally by Lancashire County Council’s Property Group. All valuations have been undertaken by qualified Chartered Surveyors who are members of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings
	£m
Valued at historical cost	368.8
Valued at current value in:	
2012/13	343.8
2011/12	161.7
2010/11	591.8
2009/10	259.7
2008/09	385.7
Total	**2,111.5**

26. 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	
	31/03/2013	31/03/2012 *Restated	31/03/2013	31/03/2012 *Restated
	£m	£m	£m	£m
Cash and cash equivalents				
Loans & receivables (See Table 2 Note 29)	-	-	65.6	47.9
Investments				
Loans and receivables (See Table 2 Note 29)	99.4	208.0	109.8	71.0
Available-for-sale financial assets	168.9	27.7	-	-
Financial assets at fair value through profit and loss	-	-	149.1	257.6
Total investments	268.3	235.7	258.9	328.6
*Debtors				
Loans & receivables	43.1	45.1	102.0	**72.2
Borrowings				
Financial liabilities at amortised cost (See Table 1 Note 29)	480.7	462.8	264.7	350.8
Other Liabilities (PFI related)				
Financial liabilities at amortised cost (See Table 1 Note 29)	402.9	410.5	7.6	8.0
*Creditors				
Financial liabilities at amortised cost	-	-	218.2	147.6

*Prior year comparatives have been restated to exclude statutory debtors and creditors

**Prior Year Adjustment (see note 2)

Reclassifications

The strategy of the county council is to hold bonds in two portfolios, fair value through profit and loss (FVTPL) and available for sale. Those bonds that tend to be susceptible to price and interest rate risk are held for the long term benefit of the council and therefore mostly in the available for sale portfolio.

The Treasury Management team perform a regular review of the asset split taking into consideration several factors including; changes in market conditions, a decline in the credit rating of the instrument, change in duration and a need to use the asset to fund capital expenditure. This review can lead to in year re-classification of financial instruments.

The in year reclassification was a result of a change in market conditions which increased the volatility of some of the assets held in the FVTPL portfolio. The amounts reclassified are summarised below:-

	Fair Value Through Profit & Loss (£m)	Available for Sale (£m)
Reclassification	(27.8)	27.8

The total loan debt administered by the county council at 31 March 2013 of £737.7m represents mainly borrowings over the years to finance the acquisition of the county council's fixed assets, which are currently valued at £2.7 billion. However, it includes £43.1m managed on behalf of other local authorities and the Lancashire Police and Crime Commissioner. This debt relates to assets transferred to those authorities in local government re-organisations and the financing charges are repaid to the county council quarterly. This leaves the net debt for which the county council is responsible at £694.6m.

Material Soft Loans Made by the council

The deferred payment scheme allows service users to defer paying their contribution to the cost of their residential care; the service users deferred contribution amounts to an interest free soft loan.

The portfolio of deferred payments is secured by a charge on the person's property and amount to £14.1m on 31 March 2013.

	£m
Opening Soft Loans 31/03/2012	**1.9**
Restatement	8.2
Closing position 31/03/2012	**10.1**
Movement in year	4.0
Closing position 31/03/2013	**14.1**

The £8.2m fair value adjustment is a prior year adjustment and takes account of the following:-

- The service user's available funds; including the proportion of the property that is owned by the service user
- The amount of capital that the service user had in addition to their property at the time of assessment
- Capital retention limit – The capital limit above which fees are charged is £23,250.
- Aged debt status
- Estimate for change in house price which is based on
    - Inflation - 3% inflation assumed
    - Empty home - in 2003 a study carried out by researchers ‘Hometrack’ concluded that empty homes cause neighbouring properties to drop in value by on average 20%; we have assumed a 10% reduction to reflect that not all properties will be empty
    - Trends in house prices – Research shows that house prices are expected to fall in 2013, and according to Knight Frank independent real estate consultancy, UK residential property prices will fall by 2% in 2013
    - Trends in regional property sale values – According to data from 'Hometrack' for the Northwest; approximately 90% of asking price is achieved in the region.

27. Income, Expense, Gains and Losses on Financial Instruments

The gains and losses during 2012/13 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table:

	2012/13					2011/12 Restated				
	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	**Total**	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	**Total**
Interest Expense	70.9	-	-	-	70.9	*72.3	-	-	-	72.3
Fee Expense	1.1	-	-	-	1.1	0.2	-	-	-	0.2
Total Expense in Surplus/Deficit on the Provision of Services	**72.0**	**-**	**-**	**-**	**72.0**	**72.5**	**-**	**-**	**-**	**72.5**
Interest Income	-	(8.8)	(6.5)	-	(15.3)	-	(8.8)	(2.1)	(2.1)	(13.0)
Increases in fair value	-	-	-	(0.2)	(0.2)	-	-	-	-	-
Decreases in fair value	-	-	-	0.3	0.3	-	-	-	19.7	19.7
Gains on derecognition	-	-	-	(21.1)	(21.1)	-	-	(7.0)	(49.1)	(56.1)
Loss on derecognition	-	-	-	8.2	8.2	-	-	-	2.4	2.4
Total income in Surplus/Deficit on the Provision of Services	**-**	**(8.8)**	**(6.5)**	**(12.8)**	**(28.1)**	**-**	**(8.8)**	**(9.1)**	**(29.1)**	**(47.0)**
Gains on revaluation	-	-	(1.1)	-	(1.1)	-	-	(7.2)	-	(7.2)
Losses on revaluation	-	-	1.7	-	1.7	-	-	0.5	-	0.5
Surplus/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	**-**	**-**	**0.6**	**-**	**0.6**	**-**	**-**	**(6.7)**	**-**	**(6.7)**
Net (Gain)/Loss for the Year	**72.0**	**(8.8)**	**(5.9)**	**(12.8)**	**44.5**	**72.5**	**(8.8)**	**(15.8)**	**(29.1)**	**18.8**

*Prior year figures have been restated to include interest payable on PFI unitary payments

28. Icelandic Deposit

Lancashire County Council had £6.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2012; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 47% of the total claim has now been repaid and the outstanding amount at 31 March 2013 is £3.4m.

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

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

29. 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 2013 of 1.98% to 4.25% for loans from the PWLB and 0.25% to 3.31% 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 carrying values of the financial instruments can be seen in Note 26. 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.
- local authority bonds which are being held as long term investments because there is no quoted market price and;
- 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

	31/03/2013		31/03/ 2012	*restated
	Amortised	Fair Value	Amortised Cost	Fair Value
	£m	£m	£m	£m
Financial liabilities	1,156.0	1,218.2	1,232.3	1,324.3

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 2013) arising from a commitment to pay interest to lenders above current market rates.

Table 2

	31/03/2013		31/03/2012	*restated
	Amortised	Fair Value	Amortised Cost	Fair Value
	£m	£m	£m	£m
Loans & Receivables	274.8	290.8	326.9	333.1
Long term Debtors	43.1	43.1	45.1	45.1

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 2013) attributable to the commitment to receive interest above current market rates.

*Prior year comparatives have been restated since presentation of fair value disclosures has been simplified.

30. 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 2012/13 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 2012/13 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 31st March 2013 and summarises the county council's investments as at 31 March 2013 (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 £0.66m in £521m or 0.13% 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**
Bonds	-	-	-	-	-	1.0	5.0	12.0	**18.0**
Gilts	-	-	-	-	-	-	-	68.0	**68.0**
Supra-National	-	-	-	-	0.4	6.1	6.7	0.6	**13.8**
Commercial	-	-	-	-	-	56.9	95.5	20.0	**172.4**
Cater Allen Private Bank	9.6	-	-	-	-	-	-	-	**9.6**
Bank of Scotland	25.0	-	-	-	-	-	-	-	**25.0**
Barclays Capital	-	50.0	-	-	-	-	-	-	**50.0**
Lloyds Corporate Markets	-	-	-	-	-	25.0	-	-	**25.0**
Royal Bank of Scotland	-	-	20.0	-	20.0	50.0	-	-	**90.0**
Natwest SIB A/C	24.5	-	-	-	-	-	-	-	**24.5**
Bank of Scotland Call Account	25.0	-	-	-	-	-	-	-	**25.0**
Total Investments (£m)	**84.1**	**50.0**	**20.0**	**-**	**20.4**	**139.0**	**107.2**	**100.6**	**521.3**
Historic default rate (AA-, %)	0.01	0.01	0.02	0.04	0.11	0.48	-	-	
Historic default rate (A+, %)	0.01	0.01	0.03	0.06	0.16	0.64	-	-	
Historic default rate (A, %)	0.02	0.02	0.04	0.07	0.21	0.79	-	-	
Exposure to default (£m)	**0.01**	**0.01**	**0.01**	**-**	**0.04**	**0.59**	**-**	**-**	**0.66**

Comparative data for 2011/12 can be seen in the table below:

Credit Risk	**<1mth**	**<3mth**	**<6mth**	**<1yr**	**<2yr**	**<5yr**	**<10yr**	**>10yr**	**Total**
Total Investments (£m) 2011/12	25.9	8.0	-	55.0	104.6	97.0	8.0	275.0	**573.5**
Exposure to default (£m) 2011/12	-	-	-	0.04	0.22	0.57	-	-	**0.83**

The maximum single commercial exposure is to RBS at £112.4m (2011/12 £90m), however overall the portfolio is diversified by the use of 21 counterparties.

In the context of credit risk, trade debtors are treated as financial instruments. Trade debtors represent money owed to the council by individuals who use our services and other organisations to whom we have provided goods or services.

The following analysis summarises the council's potential maximum exposure to credit risk, based on experience of default and therefore potential uncollectability over the last five financial years.

	Total Trade Debtors at 31/03/2013	Historical experience of default (ie 5 yr average % of debt older than 30 days)	Historical experience of debt that could become uncollectible (ie over 180 days old)	Estimated maximum exposure to default and uncollectable items based on historical average
	£m	%	%	£m
	A	B	C	(A x C)
31 March 2013	50.4	44.1	20.0	10.1
31 March 2012	35.9	41.3	17.6	6.3

The age profile of debt at 31 March 2013 which is past the due for payment date (ie older than 30 days) can be analysed as follows:

	31/03/2013	**31/03/2012**
	£m	**£m**
Less than 3 months	5.4	9.6
Three to six months	3.6	1.9
Six months to one year	3.4	3.0
More than one year	6.5	5.4
Total	**18.9**	**19.9**

The county council maintains a provision for bad and doubtful debts which at 31 March 2013 stood at some £25.3 million, (including £16.2 million for the council's share of council tax owed to the 12 district councils). This is broadly based on the total of debt that is more than six months old. However, a significant proportion of such debt is considered collectable or is in the process of being paid. As well as allocating predicted collection percentages to the various stages of debt recovery, designated Income Champions in each directorate also performed a more detailed assessment of the likely collection of such debts, resulting in the county councils proportion of the provision totalling £9.5 million (compared to £8 million for 2011/12).

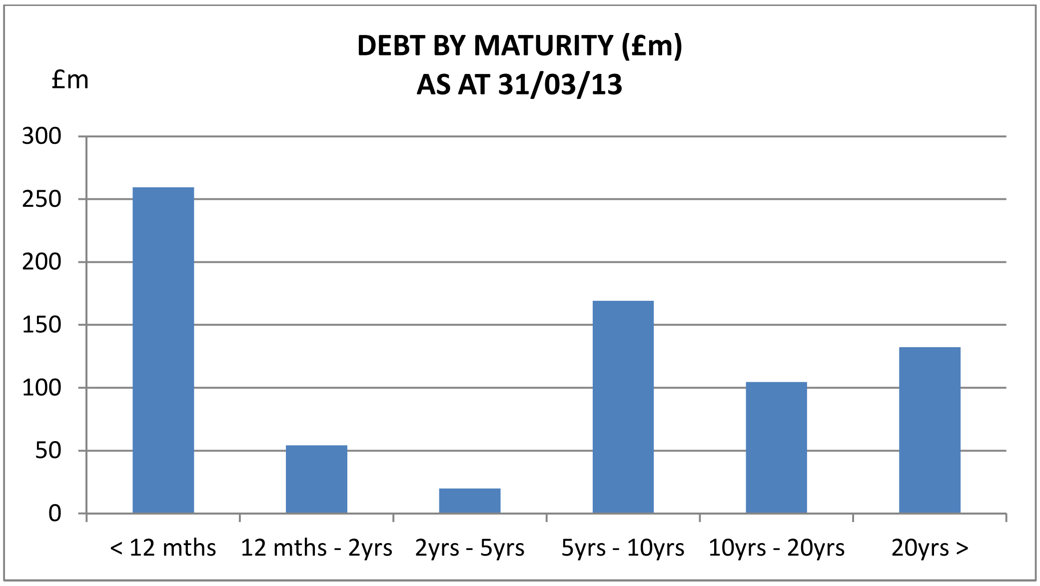
Liquidity Risk

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. 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.

Previous treasury management strategies have centred on long term fixed rate PWLB borrowing alongside a short term investment policy. This maturity mismatch became very expensive when short term rates fell to their current very low levels. The debt restructures undertaken in 2010/11 have reduced the amount of interest we pay on the debt but have also significantly altered the profile of the council's outstanding debt. During the 2012/13 financial year the total savings from the restructure outstretched the overall premium paid to the UK debt management office for repayment of the loans. With forecasts predicting low rates for some time to come it is expected the county council will continue to reap the benefits of this policy.

The chart below shows the maturity profile of the county council's debt at 31 March 2013.



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 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.

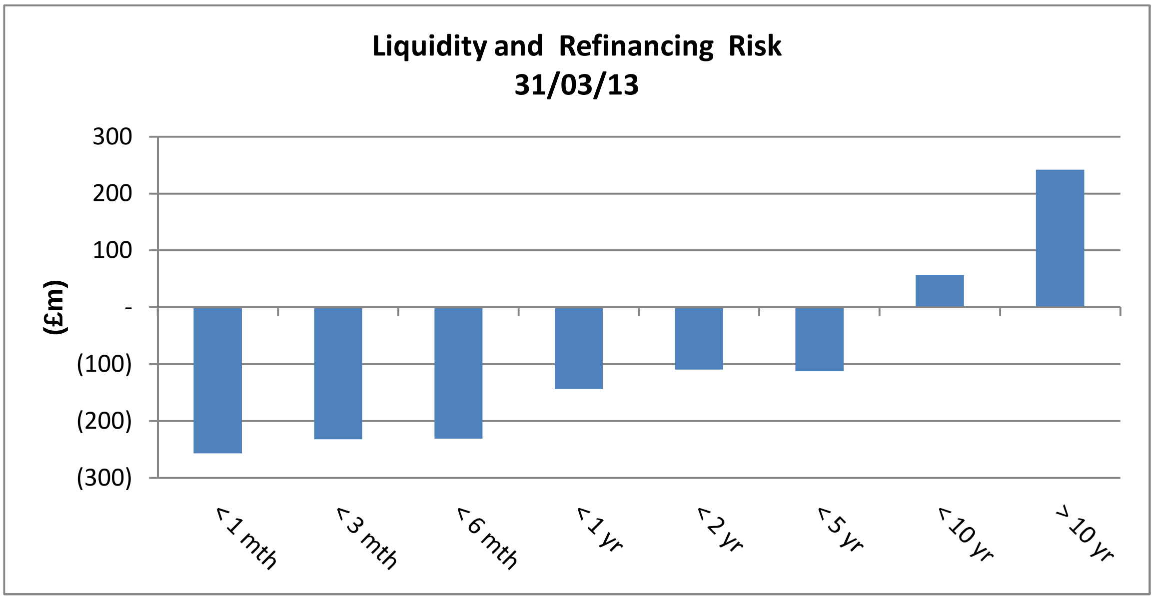
As part of a balanced portfolio, the interest rate risk is further mitigated by two factors:

- 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 7.52% 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 county treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

The chart below shows the net refinancing risk, that is total borrowing less maturing or available for sale investments.



It can be seen that although there is a significant level of short term borrowing liquidity is available through longer term borrowing, maturing fixed deposit investments and, if required, saleable investment assets.

At some point the short term borrowing will be switched back again to long term debt, but for the immediate future this risk is carefully managed.

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.

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 table below attempts to quantify the interest rate risk looking back at the 31 March 2013 position.

The effect if interest rates were 1% higher with all other variables held constant:	
	£m
Increase in interest payable on variable rate borrowings	4.1
Increase in interest receivable on variable rate investments	(0.9)
Decrease in fair value of investments held for trading*	0.1
Impact on surplus or deficit on the provision of services	**3.3**
Decrease in fair value of fixed rate available for sale investment assets	1.1
Impact on other Comprehensive Income & Expenditure	**4.4**
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	2.1
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(32.8)

* 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 or Deficit on the Provision of Services.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise. This is the consequence of the current short term borrowing policy which has provided the in year reduction in debt interest costs, and which is being carefully managed having regard to the potential for interest rates to rise.

This risk management process has begun with the inverse 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.

Foreign Exchange Risk

The county council does not make investments or borrow in foreign currencies and therefore have no exposure to loss arising from movements in exchange rates.

31. Debtors

	31/03/2013	31/03/2012	01/04/2011
	£m	*Restated £m	**£m
Central Government Bodies	15.5	4.8	7.2
NHS Bodies	0.9	2.1	0.3
Other Public Corporations	0.1	0.3	0.5
Other Local Authorities	3.0	11.0	13.2
Other Debtors	109.4	**75.7	73.8
Total	**128.9**	**93.9**	**95.0**

*The presentation of debtors has been simplified and as a result comparatives have been restated.

**Prior year adjustment (see note 2)

Central government bodies include VAT £11.2m (£4.3m 2011/12)

Other Debtors includes sales of investments £21.7m (£0.0m 2011/12) and council tax owing £14.0m (£15.0m 2011/12)

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £25.3 million at 31 March 2013 (£22.4million at 31 March 2012 and £17.2million at 1 April 2011). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

32. Creditors

	31/03/2013	31/03/2012 *Restated
	£m	£m
Central Government Bodies	20.2	23.0
Other Local Authorities	13.4	12.2
NHS Bodies	7.4	7.5
Public Corporations and Trading Funds	0	2.1
Accumulated Absences	29.1	29.4
Other Creditors	190.7	112.3
Total	**260.8**	**186.5**

*The presentation of creditors has been simplified and as a result comparatives have been restated.

Central Government Bodies include PAYE & NI £14.7m (£17.6m 2011/12) and teachers superannuation £5.5m (£5.4m 2011/12)

Other creditors includes purchase of investments £62.4m (£0.0m 2011/12) and £6.0m council tax (£6.1m 2011/12)

33. Cash and Cash Equivalents

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

	31 March 2013	31 March 2012
	£m	£m
Cash held by council	0.6	0.8
Bank current accounts	15.5	27.0
Short term deposits under 3 months	49.5	20.1
Total Cash and Cash Equivalents	**65.6**	**47.9**

34. Provisions

We keep some funds set aside to provide for specific expenses, the exact cost of timing of which is still uncertain. These funds are known as 'provisions'. The changes to these funds are summarised below.

	Balance at 1st April 2012	Additional provision made in 2012/13	Spending met from the provision 2012/13	Unused amounts reversed in 2012/13	Balance at 31 March 2013
	£m	£m	£m	£m	£m
Insurance Provision	(18.4)	(6.9)	9.0	-	(16.3)
MMI (Municipal Mutual Insurance) Provision	(4.5)	-	-	-	(4.5)
Carbon Reduction Commitment Energy Efficiency Allowance Provision	(0.9)	(0.9)	0.8	-	(1.0)
Other Provisions	(11.6)	(2.1)	4.4	5.2	(4.1)
Total Provisions	**(35.4)**	**(9.9)**	**14.2**	**5.2**	**(25.9)**

Insurance provision

We set aside funds to cover liability claims which our insurers will not pay because they fall below our excess and our annual self insured limits. These claims may relate to employer's liability, public liability or buildings insurance. There are no material unfunded risks. The insurance provision contains large cash resources which may not be needed for several years. We use these resources to support our internal loans reserve .The provision is made at a level of estimated total amount for the financial year for which the council will be liable, and will be due for payment in future years.

MMI (Municipal Mutual Insurance)

This long term provision is to cover a liability that may arise from the potential insolvency of Municipal Mutual Insurance.

CRC Energy Efficiency Allowance Provision

It was agreed by the Local Authority Accounting Panel (LAAP) that Carbon Reduction Commitment (CRC) transactions should be accounted for as central costs and defined as Non Distributed Costs (NDC). It was further agreed that in proposing a Non Distributed Cost treatment, LAAP recognised that net Carbon Reduction Commitment Scheme costs or income may relate to, for example, schools. However, since the cost/income is likely to be immaterial in the early years of the scheme, the position would be reviewed when the scheme became established. As allowances do not need to be purchased until during 2012/13, a long term provision has been set up to provide for potential costs.

Other Provisions include the following:-

Teachers' pension provision

In 1995 part-time hourly-paid teachers and lecturers were allowed to join the Teachers' Pension Scheme. With effect from 1 April 2002, any arrears of contributions have to be recovered in full from the employer (ie the county council). There is a delay in processing applications for some staff therefore the provision was established to fund these contributions. The spending met from the provision in year relates to applications which have been settled.

Building Schools for the Future

This provision relates to abortive costs which will be incurred by the council in association with the cessation of the Phase 4 – Building Schools for the Future Programme (BSF) and disputed utilities costs. This provision will also assist in bridging the funding gap anticipated with the outstanding BSF programmes. It is anticipated that the associated work and costs will be incurred in 2013/14.

Swimming pools repairs and maintenance

This provision is to cover the essential cost of repairs and maintenance work required as identified by the county council's property group, following health and safety inspections of Heysham, Carnforth and Hornby swimming pools.

Heritage Trust (North West Guarantee)

This provision reflects a potential liability in relation to loans from the Architectural Heritage Trust to the Heritage Trust for the North West for which the county council is the guarantor. At this stage it is not clear when a liability will materialise and, on this basis, the provision is reflected as a closing balance at 31 March 2013.

Provision for VAT Liability for Voluntary Aided Schools (Property Scheme)

A reassessment of the application of rules for reclaiming VAT for voluntary aided schools has lead to the council having to provide for a liability to HM Revenue and Customs.

Section 117 client refunds

This provision is for the refund of client contributions under section 117 of the Mental Health Act. These refunds are made as and when individual service users present valid claims to the county council.

Equal Pay Review Provision

This provision covered the estimated costs of compensation payments and pay protection following the Equal Pay Review. The process of compensation payments and pay protection has now been completed and any remaining balances have been transferred to the council's reserves.

Severance Costs Provision

The provision sets aside funds to cover the estimated costs for redundancy arrangements.

Employment Tribunal

This provision is for a current employment tribunal case pending. The outstanding case is likely to be resolved during 2013/14.

Aids and Adaptations

This provision is for agreed financial support for property adaptation or alteration costs to homes of county council foster carer properties to facilitate long-term placements. It is envisaged that contributions made to the provision during 2012/13 will be spent during 2013/14. The provision is based on an estimate of costs and the complexity of the work will determine the timing of the date of completion.

Legal Settlement and Costs

This provision is for ongoing legal settlements and costs which will be resolved in 2013/14.

Pensions Contract provision

Non current liability - This provision is for the potential termination of external contracts. It is anticipated that this will be needed in around three years time to cover potential redundancy costs and timing issue on payments for software, should external contracts not be renewed.

Payments Pending Legal Action

Provision for payments due to organisations that are currently under legal investigation. Payments may become due once investigations have been concluded.

35. Usable Reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement.

36. Unusable Reserves

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.

	31/03/2013 £m	31/03/2012 £m
Balance at 1 April	**(718.7)**	**(769.6)**
Upward revaluation of assets	(12.3)	(16.2)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	36.0	5.3
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**23.7**	**(10.9)**
Difference between fair value depreciation and historical cost depreciation	11.0	7.4
Accumulated gains on assets sold or scrapped	20.8	53.2
Reclassifications	-	1.2
Amount written off to the Capital Adjustment Account	31.8	61.8
Balance at 31 March	**(663.2)**	**(718.7)**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the 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 7 details the source of all the transactions posted to the account.

	2012/13	2011/12
	£m	**£m**
Balance at 1 April	**(865.6)**	**(862.0)**
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	53.2	43.1
Revaluation losses on Property, Plant and Equipment	13.3	16.5
Amortisation of intangible assets	1.8	0.3
Revenue expenditure funded from capital under statute	16.9	11.3
Reversal of charge re transfer of academies	38.2	98.0
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	11.0	9.0
Write down of Private Finance Initiative (PFI) liability	(7.9)	(17.9)
Adjusting amounts written out of the Revaluation Reserve	(31.8)	(60.6)
	(770.9)	**(762.3)**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(2.1)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(30.3)	(31.4)
Application of grants to capital financing from the Capital Grants Unapplied Account	(81.0)	(30.5)
Statutory provision for the financing of capital investment charged against the County Fund	(28.9)	(26.2)
Capital expenditure charged against the County Fund	(28.1)	(15.7)
	(168.3)	**(105.9)**
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	0.2	-
Reclassifications – PPE adjustments and waste PFI deferred consideration write out	8.8	2.6
Balance at 31 March	**(930.2)**	**(865.6)**

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.

	2012/13	2011/12
	£m	£m
Balance at 1 April	0.5	7.2
Upwards revaluation of investments	(1.1)	(6.7)
Downward revaluation of investments not charged to the surplus/(deficit) on the Provision of Services	1.7	-
Balance at 31 March	**1.1**	**0.5**

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.

	2012/13	2011/12
	£m	£m
Balance at 1 April	**(23.6)**	**(25.6)**
Reclassification*	(8.2)	-
Proportion of premiums incurred in previous financial years to be charged against the County Fund balance	2.2	2.0
Balance as at 31 March	**(29.6)**	**(23.6)**

***Reclassification of unamortised premiums of premature debt repayment from deferred liabilities into Financial Instruments Adjustments Account

The amount by which finance costs charged to the Comprehensive Income and Expenditure Statement (CIES) are different from finance costs chargeable in the year is the net premium incurred in the debt restructure. This will be written down to Comprehensive Income and Expenditure Statement, in accordance with our accounting policies, over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The 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.

	31/03/2013	**31/03/2012 - *Restated**
	£m	**£m**
Balance at 1 April	(939.5)	(765.2)
Actuarial gains or (losses) on pensions assets and liabilities	(173.3)	*(175.4)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(91.2)	*(79.9)
Employer's pension contributions and direct payments to pensioners payable in the year	76.9	81.0
Balance at 31 March	**(1,127.1)**	**(939.5)**

*Actuarial losses and reversal of items relating to retirement benefits have been reclassified

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the County fund from the Collection Fund.

	2012/13	2011/12
	£m	£m
Balance at 1 April	(1.5)	(1.2)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1.2	(0.3)
Balance at 31 March	**(0.3)**	**(1.5)**

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, eg annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the County fund Balance is neutralised by transfers to or from the account.

	2012/13	2011/12
	£m	£m
Balance at 1 April	29.4	37.9
Settlement or cancellation of accrual made at the end of the preceding year	(29.4)	(37.9)
Amounts accrued at the end of the current year	29.1	29.4
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.3)	(8.5)
Balance at 31 March	**29.1**	**29.4**

37. Long Term Debtors

Long term debts to the council are shown below:

	31/03/2013	31/03/2012
	£m	£m
Transferred Debt	43.1	45.1
Total	**43.1**	**45.1**

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

Cashflow Statement Notes

38. Cashflows from Operating Activities

2012/13			2011/12 Restated	
£m	£m		£m	£m
	(33.0)	**Net (surplus) or deficit on the provision of services**		****(78.5)**
		Adjustment to surplus or deficit on the provision of services for non cash movements		
(53.1)		Depreciation	*(43.2)	
(13.3)		Impairment and downward valuation	(16.5)	
(1.8)		Amortisation of intangible assets	*(0.3)	
1.8		Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c	(19.3)	
(1.2)		Adjustments for effective interest rates	***1.8	
-		Net PFI Debtor Adjustments	(3.3)	
0.7		(Increase)/Decrease in Interest Creditors	(0.3)	
1.9		(Increase)/Decrease in Creditors	10.6	
(1.4)		Increase/(Decrease) in Interest and Dividend Debtors	-	
18.2		Increase/(Decrease) in Debtors inclusive of impairment allowance	**3.3	
(0.6)		Increase/(Decrease) in Inventories	(0.3)	
(14.3)		Movement in Pension Liability	1.1	
9.7		Contributions (to)/from Provisions	8.1	
(8.2)		Reclassification****	-	
(0.3)		Other cash movement	0.2	
(49.2)		Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	(106.9)	
(0.2)		Movement in Investment Property Values	-	

	(111.3)			**(165.0)**
		<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
82.4		Capital Grants credited to (surplus) or deficit on the provision of services	126.6	
9.8		Net proceeds from the sale of short and long term investments	***53.7	
3.7		Proceeds from the sale of property plant and equipment, investment property and intangible assets	1.0	
	95.9			**181.3**
	(48.4)	**Net Cash Flows from Operating Activities**		**(62.2)**

*Figure restated due to a change in presentation of the data.

**Prior year Adjustment (see note 2)

***Since the presentation of the note has changed; to reflect the net investments position on the main cashflow statement, prior year figures have been restated.

****Reclassification of unamortised premiums of premature debt repayment from deferred liabilities into Financial Instruments Adjustments Account (£8.2m)

39. Cash Flow Statement - Operating Activities (Interest)

2012/13			2011/12 Restated	
£m	**£m**		**£m**	**£m**
(28.2)		Ordinary interest received	(47.5)	
(0.4)		Other adjustments for differences between Effective Interest Rates and actual interest receivable	*4.2	
(3.8)		Opening Debtor	(3.7)	
2.4		Closing Debtor	3.7	
	(30.0)	**Interest Received**		**(43.3)**
63.8		Interest charge for year	72.5	
(8.2)		Reclassification**		
(0.7)		Adjustments for differences between Effective Interest Rates and actual Interest payable	(2.4)	
-		Adjustment for impairment losses on Long & Short Term Investments charged to Interest Payable	0.1	
3.4		Opening Creditor	3.0	
(2.7)		Closing Creditor	(3.3)	
	55.6	**Interest Paid**		**69.9**

*Since the presentation of the note has changed; to reflect the net investments position on the main cashflow statement, prior year figures have been restated.

** Reclassification of unamortised premiums of premature debt repayment from deferred liabilities into Financial Instruments Adjustments Account

40. Cash Flows from Investing Activities

2012/13 £m		2011/12 £m
122.9	Purchase of Property, Plant and Equipment, investment property and intangible assets	146.9
1,773.0	Purchase of short and long term investments	2,748.0
(3.7)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(0.9)
(1,860.2)	Proceeds from the sale of short-term and long-term investments	*(2,674.7)
(84.7)	Other capital grants and receipts from investment activities	(132.8)
(52.7)	**Net Cash Flows from Investing Activities**	**86.5**

*Since the presentation of the note has changed; to reflect the net investments position on the main cashflow statement, prior year figures have been restated.

41. Cash Flows from Financing Activities

2012/13 £m		2011/12 £m
(1,046.1)	Cash receipts from short and long term borrowing	(1,574.1)
(1.3)	Appropriation to/from Collection Fund Adjustment Account	0.3
1,122.8	Repayment of short-term and long-term borrowing	1,555.0
8.0	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	18.0
83.4	**Net Cash Flows from Financing Activities**	**(0.8)**

Other Notes

42. Related parties

In accordance with International Accounting Standard (IAS) 24 *Related Party Disclosures*, our financial statements must draw attention to the possibility that our financial position may have been affected by related parties and by financial transactions with them.

Having identified all organisations with which councillors and members of the council's senior management team (or a member of their family) have a significant control an examination has been conducted into any transactions that have occurred between them and Lancashire County Council.

The conclusion of the examination is that none of the transactions can be classed as significant to Lancashire County Council.

The government

Central government controls our general activities. It is responsible for providing the legal framework we operate in.

It provides a significant proportion of our funding through grants and sets out the terms for our major dealings with other organisations (for example, council tax precepts on district councils). Grants from the government are included in our accounts and in the notes to this statement of accounts.

County councillors

County councillors have direct control over our financial and operating policies. Under section 81 the Local Government act 2000, their outside interest are recorded in a formal register, The Register of Interest, which is available for inspection at the Office of the Chief Executive, County Hall, Preston. The details of how to view the register can also be found on the council's website at:

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=969&tab=1

Our code of conduct requires county councillors to declare any related interests they have and to take no part in 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. Theses interests include:

- Roles with voluntary organisation and charities which may receive grants from the council.
- Roles where they have significant influence/control within limited companies that has a contract with the council.
- Family members that have significant influence/control within any organisation that has dealings with the council.

Below is a list where councillors or a member of their family are involved and has significant control with an organisation.

There were also a number of transactions that were declared between Lancashire County Council and organisations where the councillors have significant involvement. Our code of conduct requires county councillors to declare interests they have and to take no part in meetings or decisions on issues involving those interest. None of the transactions can be classed as significant to Lancashire County Council.

CC Mike France Managing Director of AMJ Ltd, the company received £2,276 from the supply of stationery and promotional goods.

CC Janice Hanson, Friends of Regent Park, the company received £100 for grants for redevelopment funding.

CC Andrea Kay, Wyre Skate Night, the company received a grant for £3,500.

CC John Shedwick, Honorary Member, Thornton Cleveley's Operatic Society, the company received £300 and as Director for Dukes Theatre, the company received £17,000.

CC David Smith, Longridge Youth and Community Centre received £50,000.

Two county councillors omitted to send in returns, however these councillors were not re-elected in the recent local government elections.

One Connect Ltd

There are 2 councillors on the board of directors of One Connect Ltd, a joint venture between Lancashire County Council and BT that has a contractual relationship with the county council.

County Councillor Geoff Driver

County Councillor Albert Atkinson

Officers

Our senior officers may influence our financial and operating policies. The 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 2012/13.

Phil Halsall, chief executive of Lancashire County Council, Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing) Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Business and Innovation Centre Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, One Connect Ltd, Preston Technology Management Centre Ltd, Regenerate Pennine Lancashire Ltd, Blackpool Fylde and Wyre Economic Partnership Limited.

Ian Fisher BA (Hons), the county secretary and solicitor was also secretary (unless otherwise identified) to: Blackpool Bay Area Company Ltd, Blackpool Fylde and Wyre Economic Development Company Limited, CCP Nameholdco Ltd, CCP Nameholdco Ltd (director), Healthwatch Lancashire Ltd, LANPAC Ltd, LCC Building for the Future Ltd, LCC Protect Name Ltd, LCC Protect Name Ltd (director), LWS Lancashire Environmental Fund Ltd, Lancashire Business and Innovation Centre Ltd, Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Developments Ltd, Lancashire County Enterprises (Leasing), Lancashire Education Business Partnership Ltd, Lancashire Enterprise Partnership Ltd, Lancashire Enterprise (Investments) Ltd, Lancashire Sport Partnership Ltd, Lancashire Workforce Development Partnership Ltd, Marketing Lancashire Ltd, Motor Industry Local Authority Network (Director), Motor Industry Local Authority Network, New Era Trust, Preston Technology Management Centre Ltd, Public Transport Information Ltd, Regenerate Pennine Lancashire Ltd, The Clayton Park Conference Centre Ltd, The Lancashire Rosebud (small firms) Fund Company Ltd, The VIA Partnership Ltd.

Gill Kilpatrick, the County Treasurer was treasurer to the Lancashire County Pension fund.

Helen Denton, Executive Director for Adult and Community Services and Public Health also has a Non-executive Director role on the board of the University Hospitals of Morecambe Bay.

Richard Jones, Executive Director for Adult and Community Services is the trustee for SCOPE and Carers UK.

Jo Turton, Executive Director for Environment was also trustee of Community Foundation for Lancashire

Lancashire County Developments Ltd

Lancashire County Developments Ltd (LCDL) acts as an economic and job creation agency for the county. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The Council controls 80% of the members' voting rights and it is classed as a subsidiary of the county council.

The county council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not allowed to distribute profits as dividends.

Sales to Lancashire County Council during the year amount to £2,235,389 (2012: 2,488,260). Purchases with Lancashire County Council amount to £2,510,058 (2012: £3,734,591). The amount owed by this related party at 31 March 2013 is £586,883 (2012: £808,831).The amount owed to this related party at 31 March 2013 is £6,310 (2012: £932,202).

A copy of the statement of accounts is available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

One Connect Limited (OCL)

OCL is a joint venture between Lancashire County Council and BT, set up in May 2011. The partnership delivers a range of services for the county council, including ICT services, customer access and procurement, giving us the best value for money while improving the services the council provides to the people, schools, businesses and organisations in Lancashire.

The Company recognised revenue of £60,590,000 (2012: £50,897,000) from LCC, holder of 4,000 "B" ordinary shares. The company also incurred expenses of £42,234,000 (2012: £41,469,000) to LCC. The expenditure related to the reimbursement of staff and other costs incurred by LCC on behalf of the Company. At 31 March 2013, debtors include balances of £6,268,000 (2012: £9,898,000) owing from LCC.

In 2012/13 Lancashire County Council recognised revenue of £41.9million (£41.5million in 2011/12) from One Connect Limited in respect of contract payments and re-imbursement for payment of seconded staff. The council incurred expenditure of £56.5million (£54.1million in 2011/12) to One Connect Limited in payment for services provided by the strategic partnership.

A copy of the statement of accounts are available from Companies' House, www.companieshouse.gov.uk. Due to timing this information is based on unaudited accounts.

Lancashire Enterprise Partnership (LEP) Ltd

This company was incorporated in April 2011 to promote the economic development, growth and regeneration of the administrative areas of Lancashire, Blackburn with Darwen and Blackpool. It is a Government-endorsed partnership between the private and public sectors with a board comprising representatives from some of Lancashire's biggest employers, chambers of commerce, local councils and academic institutions. The company is classed as a subsidiary of Lancashire County Council

Chaired by Edwin Booth, chairman of E H Booth & Co Ltd, and comprising 16 directors, the LEP serves as the focal point for directing economic development in the county and is hugely influential in the work of councils and other agencies responsible for stimulating economic growth.

Wholly owned by Lancashire County Council, the LEP is a private company limited by guarantee and has no share capital. It does not hold any assets, resources or contracts nor does it employ staff.

The LEP has an important role in drawing investment into Lancashire through central government initiatives such as the Growing Places Fund, from which the LEP was allocated £19.4m. The County Council acts as the accountable body for the LEP for the Growing Places Fund, though the LEP approves investment for suitable schemes with the support of County Council officers.

There are no material related party declarations to be made with Lancashire County Council.

For further information, please contact the Company Secretary, Ian Fisher, at PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ. Information is also available from Companies House.

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. The cabinet member for Schools and the Executive Director for Children and Young People (or her nominee(s) sit on the board of CXL, and the county secretary and solicitor is the company secretary.

There are no material related party declarations to be made with Lancashire County Council.

A copy of the accounts can be obtained from The Via Partnership Ltd registered office: County Hall, Preston, Lancashire, PR1 8XJ.

Lancashire Education Business Partnership Limited

This company is a registered charity and was incorporated to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. The company is limited by guarantee and the liability of members is limited to £1.

With effect from April 2010, LEBP Limited formed an alliance with CX Limited, as it is a company with similar social objectives and whose shareholders are the same as the guarantors of LEBP Limited; (specifically Lancashire County Council, Blackburn and Darwen Borough Council and Blackpool Council) The joint interests, market place and plans for growth offered an ideal opportunity to consider integrated structures to reduce costs and overheads, thereby increasing the impact of funding on the front line. The alliance has been delivered under the brand name of Via Partnership and this has created a foundation for a single company delivery vehicle in the future.

There are no material related party declarations to be made with Lancashire County Council.

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, 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.

The £0.004 million profit includes a £0.022 million FRS17 valuation exceptional loss adjustment.

During the year, the company has declared purchases of £1,838 (2012: £130,171) and a creditor balance of £nil (2012: £3,129) from its member Lancashire County Council. Sales for the year are £1,200 (2012: £9,982).

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 £87,600 (2012: £17,000) from its member, Lancashire County Council. A portion of these amounts received relate to projects continuing into the next year, and such amounts are included within deferred income. The company also paid £2,134 (2012: £599) to Lancashire County Council for the use of conferencing facilities and other services.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Building Schools for the Future Limited

LCC Building Schools for the Future (BSF) Limited manages the council's investment through the Local Education Partnership into companies set up to run BSF Private Finance Initiative projects. The liability of a member is limited to £1.

The company has taken advantage of the exemption in FRS 8 "Related Party Transactions" and has not disclosed transactions with wholly owned group undertakings.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past. A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

LWS Lancashire Environmental Fund Ltd

LWS Lancashire Environmental Fund Ltd receives landfill tax credits and awards grants to environmental projects which meet the criteria specified by the Landfill Tax Regulations 1996. It is a charitable company limited by guarantee and therefore has no share capital. The liability of members is limited to £1.

Lancashire County Council is a member of the charitable company with the power to appoint one trustee to the board. A Atkinson was the chairman of the charitable company and a member of Lancashire County Council. During the year the charitable company has placed funds on deposit with the council on which interest of £7,922 (2011: £7,668) has been earned at the local authority seven day notice deposit rate. At 31 December 2012 the balance of funds on deposit was £1,579,955 (2011: £1,579,955).

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, PR1 8XJ.

Lancashire Workforce Development Partnership Limited

This organisation is an employer led partnership between the Independent Social Care employers in Lancashire and Lancashire County Council, established to improve social care delivery through workforce training. This is a company limited by guarantee and the liability of the council is limited to £1.

An amount of £1,200,000 was received under a service level agreement from Lancashire County Council in the year. In addition, Lancashire Workforce Development Partnership invoiced Lancashire County Council for room hire of £15,949 in the year. Lancashire Workforce Development Partnership Limited also paid £53,876 contributions 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.

Lancashire Partnership Against Crime Limited

The Lancashire Partnership Against Crime is a registered charity for over 20 years and a company limited by guarantee. Working in partnership with hundreds of organisations, to secure funding for additional community safety and crime reduction measures countywide.

There are no material related party declarations to be made with Lancashire County Council.

A copy of the accounts can be obtained at 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 £97,026 (2011: £97,474) during the year. During the year, Public Transport Information Limited acquired licenses with a total cost of £1,614 (2011: £3,812) on behalf of Lancashire County Council which were subsequently recharged at cost. At the year end, Lancashire County Council were owed £Nil (2011: £Nil) by Public Transport Information Limited, and owed £Nil (2011: £Nil) to the company.

A copy of the accounts can be obtained from companies' house,www.companieshouse.gov.uk.

New Era Trust Ltd

New Era Trust Ltd provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1.

During the year Lancashire County Council, who have three representatives on the board of the trust, rented office space from the Trust for a rental of £33,609 (2012: £32,628) and New Era Trust paid £12,336 (2012: £10,282) to them in respect of services provided and £953 was paid by Lancashire County Council in respect of services provided by the Trust. As at 31st March 2013 Lancashire County Council owed the trust £4,098 (2012: £23).

Lancashire County Council and Hyndburn Borough Council leased the land and buildings to the Trust on 125 year leases at a peppercorn rent. The leases were due to expire on 30 September 2124. On 16th March 2013, the lease was cancelled. New Era Trust no longer lease the property.

A copy of the accounts can be obtained from Jill Tulasiewicz at the following email address jill.tulasiewicz@neweratrust.com.

Blackpool Fylde and Wyre Economic Development Company Limited

Blackpool Fylde and Wyre Economic development company Ltd is a company limited by guarantee and exists to promote economic development, and to support inward investment and marketing activity within the Fylde coast area .It also operates under the name of Blackpool Bay Area company . The company members comprise Blackpool Council, Fylde Council, Wyre Council and Lancashire County Council

There are no material related party declarations to be made with Lancashire County Council.

A copy of the accounts can be obtained at PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Preston Vision Limited

The company exists to promote social, physical, economic, environmental and educational related development of the Preston city centre area. It is a company limited by guarantee and the liability of members is limited to £1.

Preston Vision Limited ceased trading 31 July 2012.

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ

43. Contingent liabilities

These are liabilities which relate to past events, the effects and costs of which remain uncertain. Because of this uncertainty, no entries have yet been made in the accounts.

Details of these liabilities are set out below:

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

44. Contingent Assets

Lancashire County Council does not have any contingent assets in 2012/13

45. 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 council participates in two pension schemes:

Lancashire County Pension Fund – this is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The Teachers' Pension Scheme – this is an unfunded defined benefit final salary scheme administered by Teachers' Pensions on behalf of the government, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions relating to retirement benefits

We recognised the cost of retirement benefits in the surplus/deficit on continuing operations in the Comprehensive Income and Expenditure Statement, when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the International Accounting Standard 19 (IAS 19) cost of retirement benefits is reversed out in the Movement in Reserve Statement against the County Fund balance.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	Local Government Pension Scheme 2012/13	Local Government Pension Scheme 2011/12	Teachers Pension Scheme 2012/13	Teachers Pension Scheme 2011/12
Comprehensive Income and Expenditure Statement	**£m**	**£m**	**£m**	**£m**
Cost of Services :				
Current service cost	63.5	58.4	-	-
Past service cost	0.1	-	-	-
Curtailment cost	(3.8)	(2.0)		0.3
Financing and Investment Income and Expenditure				
Interest cost	124.8	129.4	6.1	7.1
Expected return on scheme assets	(99.4)	(113.2)		-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	85.1	72.6	6.1	7.3
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Actuarial (gains) and losses	155.5	170.8	17.7	4.6
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	240.7	243.4	23.8	11.9
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with IAS 19	85.1	72.6	6.1	7.3
Actual amount charged against the general fund balance for pensions in year				
Employers contributions payable to the scheme	65.9	70.2	11.1	10.8
Retirement benefits payable to pensioners		-	-	-

In 2012/13 we paid £46.1 million to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£50.2 million and 15.4% in 2011/12).

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2012/13 these amounted to £8.6 million, representing 2.6% of pensionable pay (£8.5 million and 2.6% in 2011/12).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £173.3 million (£175.4 million in 2011/12) were included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss of £450.2 million.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	Funded liabilities: Lancashire County Pension Fund		**Unfunded liabilities: Teachers Pension Scheme**	
	2012/13	**2011/12**	**2012/13**	**2011/12**
	£m	**£m**	**£m**	**£m**
1 April	2,555.4	2,372.0	137.4	136.2
Current service cost	63.5	58.4	-	-
Interest cost	124.8	129.4	6.1	7.1
Contributions by scheme participants	20.5	20.5	-	-
Actuarial (gains) and losses	321.4	85.8	17.7	4.6
Benefits paid	(93.9)	(105.2)	(11.1)	(10.8)
Curtailments	1.3	6.7		0.3
Settlements	(7.0)	(12.2)	-	-
Past service costs/(gains)	0.1	-	-	-
31st March	**2,986.1**	**2,555.4**	**150.1**	**137.4**

Reconciliation of fair value of the scheme assets:

Lancashire County Pension Fund

	2012/13	**2011/12**
	£m	**£m**
1 April	1,753.2	1,743.0
Expected rate of return	99.4	113.2
Actuarial gains and (losses)	165.8	(85.0)
Settlements	(1.9)	(3.5)
Employer contributions	65.9	70.2
Contributions by scheme participants	20.5	20.5
Benefits paid	(93.8)	(105.2)
31 March	**2,009.1**	**1,753.2**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £265.2 million (2011/12 gain of £28.2 million).

Scheme history

	2008/09	2009/10	2010/11	2011/12	2012/13
	£m	**£m**	**£m**	**£m**	**£m**
Present value of scheme liabilities:					
Local Government Pensions Scheme	(1,828.2)	(2,522.5)	(2,372.0)	(2,555.3)	(2,986.1)
Teachers Pensions Scheme	(121.9)	(143.9)	(136.2)	(137.4)	(150.1)
Fair value of assets in the Lancashire County Pension Fund	1,202.5	1,606.4	1,743.0	1,753.2	2,009.1
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(625.7)	(916.1)	(629.0)	(802.1)	(977.0)
Teachers Pension Scheme	(121.9)	(143.9)	(136.2)	(137.4)	(150.1)
Total	**(747.6)**	**(1,060.0)**	**(765.2)**	**(939.5)**	**(1,127.1)**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £1,127.1 million in 2012/13 has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in net assets of £863.8 million.

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 2014 is £65.6 million. Expected contributions for the Teachers Pension Scheme in the year to 31 March 2014 are £42.8 million.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Teachers Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010. The principal assumptions used by the actuary have been:

	2012/13	**2011/12**
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.00%	7.25%
Bonds	3.48%	4.18%
Other	4.45%	4.67%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	22.1 years	21.7 years
Women	24.8 years	24.3 years
Longevity at 65 for future pensioners:		
Men	23.9 years	23.1 years
Women	26.7 years	25.9 years
Rate of inflation (CPI)	2.40%	2.50%
Rate of increase in salaries	4.40%	4.50%
Rate of increase in pensions	2.40%	2.50%
Rate for discounting scheme liabilities	4.20%	4.90%
Take-up of option to convert annual pension into retirement lump sum	50%	50%

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, by proportion of the local assets held:

	31/03/2013	31/03/2012
	%	%
Equity investments	62.0	58.0
Bonds	25.1	20.0
Other assets	12.9	22.0
	100.0	**100.0**

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Differences between expected and actual return on assets	34	20	2	(5)	8
Experience gains and losses on liabilities	0	0	(6)	3	11

46. Events after the balance sheet date

Date on which the Financial Statement were authorised for issue

The Statement of Accounts was authorised for issue by the county treasurer on 28 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Non adjusting post balance sheet event

- The initial Revenue Support Grant was top sliced to be utilised as fund for schools moving to academies. At the end of the financial year the Department for Education calculation based on number of schools moving to academies, resulted in £3.599m being returned to the council. This refund was not provided for within the accounts because of the uncertainty of its value.

- The new arrangements for the retention of business rates comes into effect on 1 April 2013, the council will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list

  This will include amounts that were paid over (to central government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the council, but would have been transferred to Department for Communities and Local Government. At this stage, the value of this is uncertain.

- Since preparing the Accounts St Mary's Catholic Technology College, Leyland was burned down. The value of the school formed part of the PPE figure in the accounts. The school was held in the balance sheet at £5.471m. If the fire had taken place before 31.3.13 it is estimated that the school would have been impaired to a value of £1. The rebuild will be fully covered by insurance policies and is currently estimated to cost approximately £20m.

- The county council is a key partner in a £400m City Deal, the deal has been agreed between the Government the County Council, Preston City Council, and South Ribble Borough Council. The City deal consists of a series of infrastructure projects which will allow four new road schemes to go ahead and will open up land for approximately 17,000 new homes to be built. In order to facilitate the City Deal the county council has earmarked its future revenue stream from the New Homes Bonus in this part of Lancashire and has undertaken to provide support to manage cash flow differences within the overall City Deal delivery programme. The impacts of these commitments have been reflected in the council's forward financial forecasts.

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.

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes.

The capital accounts in the table below show the value of the investment money that has been bequeathed.

The revenue accounts record the day-to-day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Adult and Community Services 2012/13 £m	Children and Young People 2012/13 £m	Other 2012/13 £m	Total 2012/13 £m	Total 2011/12 £m
CAPITAL ACCOUNTS					
Balances at 1 April	-	0.2	-	0.2	0.2
Net Movement in funds	-	-	-	-	-
Balances at 31 March	**-**	**0.2**	**-**	**0.2**	**0.2**
REVENUE ACCOUNTS					
Balances at 1 April	0.1	-	-	0.1	0.1
Income received	-	-	-	-	-
Payments during the year	-	-	-	-	-
Balances at 31 March	**0.1**	**-**	**-**	**0.1**	**0.1**
AGGREGATE BALANCES at 31 March (Capital Revenue)	**0.1**	**0.2**	**-**	**0.3**	**0.3**

Lancashire County Pension Fund

Accounts
2012-2013

Accounts of the Fund

Responsibilities for the Statement of Accounts

a) The Responsibilities of the Administering Authority

The Administering Authority is required:

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

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

b) The Responsibilities of the Treasurer to the Pension Fund

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;

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

The Statement of Accounts relate to the financial year ended 31 March 2013 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

30th September 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2013 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 2012/13.

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

As explained more fully in the Statement of the Responsibilities of the Treasurer to the Pension Fund, the Treasurer to the Pension Fund is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer to the Pension Fund and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

30th September 2013

Fund Account

	Note	2012/13 £m	2011/12 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	202.7	209.3
Transfers in	7	9.9	11.1
		212.6	220.4
Benefits	8	(210.2)	(219.1)
Payments to and on account of leavers	9	(12.6)	(13.7)
Administrative expenses	10	(5.0)	(3.8)
		227.8	236.6
Net withdrawals from dealings with members		**(15.2)**	**(16.2)**
Return on investments			
Investment income	11	120.8	117.6
Profit and loss on disposal of investments and change in market value of investments	14	532.6	(7.9)
Investment management expenses	20	(7.2)	(7.1)
Net return on investments		**646.2**	**102.6**
Net increase (decrease) in the net assets available for benefits during the year		**631.0**	**86.4**

*Prior year has been restated to reflect net rental income from properties in investment income.

Net Asset statement for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Investment assets	14	4,990.9	4,361.4
Investment liabilities	14	(1.9)	(1.5)
Current assets	21	31.7	23.3
Current liabilities	23	(9.7)	(3.2)
Net assets of the fund available to fund benefits at the period end		5,011.0	4,380.0

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2013 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Clare Pritchard

Chair of the Audit Committee

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 2012/13 cash inflows during the year consisted of £333.4 million and cash outflows were £235 million, representing a net cash inflow of £98.4 million (compared with an inflow of £94.3 million in the previous year). Benefits payable amounted to £210.2 million and were partially offset by net investment income of £120.8 million (including £21.6 million accrued dividends); contributions of £202.7 million and transfers in of £9.9 million produced the positive cash inflow.

The increase in net gain resulted by the fund executing a switch from a domestic equities strategy to a global strategy in October 2012. Since that date, the US Dollar has appreciated significantly against the Pound. This, along with long term interest rates which fell slightly whilst credit spreads tightened significantly, lead to an increase in the capital values of fixed-rate securities as the discount rates used to value them fell, contributing to an additional increase in market value.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It 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 County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

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

b) **Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

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.

Participation in the Pension Fund

		Number at 31 March 2013	Number at 31 March 2012
(1)	Active Scheme Members		
	Scheduled Bodies	49,391	46,422
	Admitted Bodies	3,572	3,716
	Total	**52,963**	**50,138**
(2)	Pensioners		
	Pensions in Payment	40,885	39,933
	Preserved Pensions	49,837	47,526
	Total	**90,722**	**87,459**

c) **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) **Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

A Statutory Consultation started on 21 December 2012 on new benefit regulations for the Local Government Pension Scheme (LGPS) from 1 April 2014. A number of further consultations have followed with the intention of having a new LGPS in place by 1 April 2014. This new Scheme will reflect the provisions of the Public Service Pensions Bill which having worked its way through Parliament reached Royal Assent on 25 April 2013.
The main provisions of the new LGPS 2014 are:

• The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme with an accrual rate of 1/49th.
• The Scheme will be re-valued in line with Consumer Price Index (CPI).
• Pay will include non-contractual overtime and for part time staff pay will include additional hours.
• Flexibility in contributions will mean an optional arrangement allowing 50% of main benefits to be accrued by paying a 50% contribution rate.
• Normal Pension age will be the same as the individual member's State Pension Age (minimum 65).

The next step of the ongoing statutory consultation process is to ensure that the regulations covering the protections for current scheme members (known as the transitional regulations) are in place. These regulations describe how the move from current to new rules take place and set the foundations for protections. In particular protections will include a final salary link and protected retirement age for benefits built up to March 2014.

Over the forthcoming year the Fund will be putting together a comprehensive communications plan in order to keep scheme members informed of these changes.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2012/13 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, value on an International Accounting Standard (IAS) 19 basis, is disclosed in note 30 of these accounts.

3. Accounting Policies

Fund Account revenue recognition

- **Contribution income**

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

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

- **Transfers**

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

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

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

- **Investment Income**

i. Interest income

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

ii. Dividend income

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

iii. Distribution from pooled funds

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

iv. Rental income

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

v. 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.

Fund Account –expense items

- **Benefits payable**

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

- **Taxation**

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

- **Administrative expenses**

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

- **Investment Manager expenses**

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

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS
- Morgan Stanley

As yet no performance related fees have been paid to these managers due to them having only been appointed in October 2012.

Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2012/13 £2.2m of fees is based on such estimates (2011/12 £1.3m).

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.

Net asset statement

- **Financial Instruments**

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

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

Loans and receivables

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

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

Financial liabilities at amortised cost

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

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2013. The fair value is the current bid price for quoted securities and unitised securities.

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

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

The methodologies adopted in valuing financial instruments are explained in greater detail in note 17.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2013. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

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

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2013 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin.

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

- **Cash and cash equivalents**

Cash comprises of cash in hand and demand deposits.

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

- **Financial liabilities**

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

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

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

  As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 30).

- **Additional voluntary contributions**

  The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 19.

- **Securities Lending**

  Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'At fair value through income statement' or 'Available for sale' as appropriate.

  Collateral is marked to market, and adjusted daily. As the Fund has no obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

- **Contingent liabilities and contingent assets**

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

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

4. Critical Judgements in applying accounting policies

The fund has recognised a deposit with Landsbanki as an asset on the net asset statement as at 31st March 2013. Judgement is required in determining the recoverability of this asset at each net asset statement date. The Fund has assessed recoverability with reference to Landsbanki's financial position as at 31st December 2012 as published by the bank's Winding Up Board and considers that it is likely that 100% of the deposit, subject to exchange rate fluctuations, will be recovered. This is in line with advice issued by CIPFA and LAPFF.

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

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

The items in the Pension Fund's net asset statement at 31 March 2013 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, Infrastructure, Local Authority Bonds and Indirect Overseas Property	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. Local authority bonds are based on valuation techniques that require management judgements based on various factors. Overseas 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.	Private equity, infrastructure, local authority bonds and overseas indirect property investments in the financial statements total £408.5m. There is a risk that these investments may be under or overstated in the accounts.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £624 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £86m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £146m.

6. Contributions receivable

	2012/13 £m	2011/12 £m
Employers' contributions		
County Council	63.4	68.5
Scheduled Bodies	74.7	75.7
Admitted	12.9	12.9
	151.0	157.1
Employees' contributions		
County Council	20.6	20.5
Scheduled Bodies	26.3	26.8
Admitted	4.8	4.9
	51.7	52.2
Total contributions	202.7	209.3

Within the employee contributions figure for 2012/13, £0.2m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2012/13 £m	2011/12 £m
Individual transfers in from other schemes	9.9	11.1
	9.9	11.1

8. Benefits

	2012/13	2011/12
	£m	£m
Pensions	176.5	163.6
Lump sum retirement benefits	28.3	51.0
Lump Sum death benefits	5.4	4.5
	210.2	219.1

Relating to:		
County Council	91.4	91.9
Scheduled Bodies	105.7	112.6
Admitted Bodies	13.1	14.6
Total	**210.2**	**219.1**

9. Payments to and on account of leavers

	2012/13	2011/12
	£m	£m
Refunds to members leaving service	0	0.1
Contributions equivalent premium	0	(0.1)
Individual transfers to other schemes	12.6	13.7
	12.6	13.7

10. Administrative expenses

	2012/13	2011/12
	£m	£m
Administration and processing	3.8	3.4
Audit fee	0.1	0.1
Legal and other professional fees	1.1	0.3
	5.0	3.8

11. Investment income

	2012/13	*2011/12
	£m	£m
Fixed interest securities	21.5	27.7
Equity dividends	59.5	46.5
Index linked securities	1.2	2.8
Pooled investment vehicles	6.3	5.5
Rents from properties	25.0	24.8
Interest on cash deposits	2.8	0.7
Other	4.5	9.6
	120.8	117.6

*Prior year has been restated to reflect net rental income from properties in investment income.

12. Net rents from Properties

	2012/13	2011/12
	£m	£m
Rental Income	28.1	26.0
Direct operating expenses	(3.1)	(1.2)
Net income	25.0	24.8

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 2012/13 was £643,034 (2011/12 £467,745)

Securities on loan at the 31st March 2013 were £107.9m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £91.9m of equities and £16m of 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 £116.6m of government bonds.

14. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	4,211.9	2,695.7	(2,646.4)	532.7	4,793.9
Derivative contracts:					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency contracts	1.6				3.0
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
	4,359.9				4,989.0

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

Of the £532.7m increase in market value of investments during the 2012/13 financial year, £30.0m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 17.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2012/13 amounted to £2.2m (2011/12: £2.0m).

The investment assets at 31 March 2013 are managed by nine external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Summary of Manager's Portfolio Values as at 31st March 2013

		2012/13		2011/12	
		£m	%	£m	%
Externally Managed					
BNYM Transition (Credit and fixed income transition)		929.4	19%	-	0%
Baillie Gifford (Global equities)		703.1	14%	-	0%
Legal & General (Index tracking - multi asset)		582.1	12%	1,057.4	24%
Knight Frank (Property)		434.9	9%	383.9	9%
Robeco (Global equities)		354.5	7%	-	0%
NGAM (Global equities)		245.7	5%	-	0%
MFS (Global equities)		245.0	5%	-	0%
Morgan Stanley (Global equities)		234.1	5%	-	0%
Capital Dynamics (Private equity)		229.1	4%	222.4	5%
Capital Dynamics (Infrastructure)		77.5	1%	50.4	1%
Newton (Global equities)		-	0%	615.6	14%
JP Morgan (UK equities)		-	0%	501.4	12%
BNYM Transition (Global equities)		-	0%	617.1	14%
UBS (Bonds)		-	0%	672.7	15%
Externally Managed Portfolios		**4,035.4**	**81%**	**4,120.9**	**95%**
Internally Managed					
Credit Funds		424.0	9%	49.3	1%
Cash and bonds	Note 27	226.1	5%	166.8	4%
Emerging markets ETF		219.1	4%	-	0%
Infrastructure Funds		76.9	1%	22.9	1%
Indirect Property Funds		7.5	0%	-	0%
Internally Managed Portfolios		**953.6**	**19%**	**239.0**	**5%**
Total Portfolio Values		**4,989.0**	**100%**	**4,359.9**	**100%**

	2012/13	2011/12
	£m	£m
Fixed Interest Securities		
UK public sector quoted	294.9	234.3
UK corporate bonds quoted	225.0	289.0
Overseas corporate bonds quoted	323.7	100.1
	843.6	623.4

	2012/13	2011/12
	£m	£m
Equities		
UK quoted	218.3	772.8
Overseas quoted	1,531.0	840.9
	1,749.3	1,613.7

	2012/13	2011/12
	£m	£m
Index Linked Securities		
UK quoted	164.9	124.6
	164.9	124.6

	2012/13	2011/12
	£m	**£m**
Pooled Investment Vehicles		
UK Managed Funds:		
Equities	166.0	537.0
Private Equity	120.6	31.9
Infrastructure	98.2	67.6
Fixed Income	-	192.2
O/S Managed Funds:		
Equities	632.2	400.3
Private Equity	108.5	182.3
Infrastructure	56.2	5.7
Property	7.5	-
Credit funds	412.0	49.3
	1,601.2	1,466.3

	2012/13	2011/12
	£m	**£m**
Properties		
UK – Freehold	346.4	292.9
UK – Long Leasehold	88.5	91.0
	434.9	383.9

	2012/13	2011/12
	£m	**£m**
Balance at start of the year	383.9	397.5
Additions	72.1	24.2
Disposals	(5.3)	(34.1)
Net gain/loss on fair value	(15.8)	(3.7)
Balance at the end of the year	434.9	383.9

	2012/13	2011/12
	£m	£m
Derivatives Contracts		
Futures Contracts	-	0.2
	-	0.2

Derivative contracts (forward currency positions)

Settlement date	Bought	Sold	
	£m EQV	£m EQV	£m
Investment assets			
6 months and under	51.8	46.9	4.9
Investment liabilities			
6 months and under	65.5	67.4	(1.9)
Over 6 months	4.0	4.0	0.0

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

	2012/13	2011/12
	£m	£m
Cash Deposits		
Sterling	116.6	110.9
Foreign currency	53.9	15.9
	170.5	126.8

15. Financial Instruments classification

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

2013	**Designated at fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
	£m	**£m**	**£m**
Financial assets			
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total Financial Assets	**4,385.5**	**202.2**	**-**
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total Financial Liabilities	**1.9**	**-**	**9.7**

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

16. Net gains and losses on financial instruments

	2013	*2012
	£m	£m
Financial assets		
Fair value through profit and loss	548.4	(4.2)
Loans and Receivables	-	-
Financial Liabilities		
Fair value through profit and loss	-	-
Loans and Receivables		
Financial liabilities at amortised cost	-	-
Total	**548.4**	**(4.2)**

The increase in net gain resulted by the fund executing a switch from a domestic equities strategy to a global strategy in October 2012. Since that date, the US Dollar has appreciated significantly against the Pound. This, along with long term interest rates which fell slightly whilst credit spreads tightened significantly, lead to an increase in the capital values of fixed-rate securities as the discount rates used to value them fell, contributing to an additional increase in market value.

*****restated to exclude property which is not a financial instrument

17. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation

techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

*This investment class comprises of credit funds which in 11/12 were classified as level 1. The technique for valuing these assets is independently verified.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include private equity, infrastructure, local authority bonds 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 comparables 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 overseas indirect property fund is valued monthly by external valuers, CB Richard Ellis (CBRE). CBRE are one of the largest firms of valuers in Europe, and are required to ensure that the assets in the Fund are valued each month at the current open market value, as defined by the RICS Appraisal and Valuation Standards. The valuation methodology is also subject to independent review by E&Y.

The local authority bond value is based on a valuation technique that requires management judgement including earning multiples, public market comparables and estimated future cash flows.

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

2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,553.0	424.0	408.5	4,385.5
Total Financial assets	**3,553.0**	**424.0**	**408.5**	**4,385.5**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	1.9	-	-	1.9
Total Financial Liabilities	**1.9**	**-**	**-**	**1.9**

2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	*3,497.4	*49.3	*304.1	3,850.8
Total Financial assets	**3,497.4**	**49.3**	**304.1**	**3,850.8**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	1.6	-	-	1.6
Total Financial Liabilities	**1.6**	**0**	**0**	**1.6**

*Prior year has been restated due to a review of the previous year's information

18. Nature and extent of risks arising from Financial Instruments

Risk and risk management

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

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

a) Market risk

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

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

Asset Type	Potential market movements (+/-)
UK Bonds	4.6%
Overseas bonds	8.7%
UK equities	12.8%
Overseas equities	12.8%
Index linked Gilts	8.1%
Cash	0%
Alternatives	3.6%
Property	1.8%

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 on the following page):

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents	195.1	0.0%	195.1	195.1
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.6	496.1
Overseas bonds	323.7	8.7%	351.8	295.6
Total equities	1,749.3	12.8%	1,973.2	1,525.4
Index linked gilts	164.9	8.1%	178.2	151.6
Alternatives	1,601.2	3.6%	1,658.9	1,543.6
Property	434.9	1.8%	442.7	427.0
Total asset available to pay benefits	4,989.0		5,343.5	4,634.4

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Cash and Cash equivalents	147.9	0.0	147.9	147.9
Investment portfolio assets:				
UK bonds	695.7	5.7%	735.3	656.1
Overseas bonds	100.0	11.8%	111.8	88.2
UK equities	1,341.4	15.3%	1,547.3	1,135.6
Overseas equities	1,236.9	14.8%	1,420.3	1,053.5
Index linked gilts	166.9	7.6%	179.6	154.2
Alternatives	287.4	7.7%	309.6	265.2
Property	383.8	9.4%	419.7	347.9
Total asset available to pay benefits	4,359.9		4,871.5	3,848.5

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 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2013	As at 31 March 2012
	£m	£m
Cash and cash equivalents	170.5	126.8
Fixed interest securities	1,255.5	815.6
Total	**1,426.0**	**942.4**

Interest rate risk sensitivity analysis

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

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

Asset Type	Carrying amounts as at 31 March 2013	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in asset available	**1,426.0**	**14.2**	**(14.2)**

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

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 2013 and as at the previous year end:

Currency exposure – asset type	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£m	£m
Overseas Equities	1,531.0	1,236.9
Overseas Bonds	323.7	100.0
Overseas Alternatives	164.7	187.9
Overseas Pooled	1,051.7	449.6
Total overseas assets	**3,071.1**	**1,974.4**

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

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

A 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	**Asset value as at 31 March 2013**	**Change to net assets available to pay benefits**	
		+6.1%	**-6.1%**
	£m	**£m**	**£m**
Overseas Equities	1,531.0	1,624.4	1,437.2
Overseas Bonds	323.7	343.5	303.9
Overseas Alternatives	164.7	174.8	154.6
Overseas Pooled	1,051.7	1,115.8	987.5
Total change in assets available	3,071.1	3,258.5	2883.2

Currency exposure – asset type	**Asset value as at 31 March 2012**	**Change to net assets available to pay benefits**	
		+9.7%	**-9.7%**
	£m	**£m**	**£m**
Overseas Equities	1,236.9	1,357.0	1,116.8
Overseas Bonds	100.0	109.7	90.3
Overseas Alternatives	187.9	206.2	169.7
Overseas Pooled	449.6	493.3	406.0
Total change in assets available	1,974.4	2,166.2	1,782.8

b) Credit risk

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

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

Contractual credit risk is represented by the net payment or 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 2013 was £170.5m (31 March 2012: £126.8m.) This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2013	Balances as at 31 March 2012
		£m	£m
Bank deposit accounts			
Ulster Bank	Baa2	5.0	5.0
Northern Trust	A1	75.0	51.7
Bank of Scotland	A2	50.0	-
Bank Current Accounts			
NatWest Account	A3	40.5	70.1
Total		**170.5**	**126.8**

c) Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that 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 2013 are due within the one year.

d) Refinancing risk

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

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 2012 to 31 March 2013 for Prudential and 1 September 2011 to 31 August 2012 for Equitable Life.

Additional Voluntary Contributions

	Equitable life	Prudential	Total
	£m	£m	£m
Value at the start of the year	1.2	14.2	15.4
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	4.0	4.1
Expenditure (incl. Benefits, transfers out, change in market value)	(0.2)	(2.3)	(2.5)
Value at the end of the year	1.1	15.9	17.0

20. Investment management expenses

	2012/13	*2011/12
	£m	£m
Administration, management and custody	6.9	6.7
Performance measurement service	0.2	0.1
Other advisory fees	0.1	0.3
	7.2	7.1

*Prior year has been restated to exclude property direct operating expenses

21. Current assets

	2012/13 £m	2011/12 £m
Contributions due from: Employers	12.5	10.4
:Members	4.4	2.4
Debtors: bodies external to general government	14.8	10.5
	31.7	23.3

22. Analysis of debtors

	2012/13 £m	2011/12 £m
Other local authorities	18.9	5.5
NHS bodies	0.1	-
Public corporations and trading funds	0.1	-
Other entities and individuals	12.6	17.8
	31.7	23.3

23. Current liabilities

	2012/13 £m	2011/12 £m
Unpaid benefits	2.3	2.8
Accrued expenses	7.4	0.4
	9.7	3.2

24. Analysis of creditors

	2012/13 £m	2011/12 £m
Other local authorities	4.2	(1.2)
NHS bodies	0.4	-
Other entities and individuals	5.1	4.4
	9.7	3.2

25. Contingent Asset and Liability

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

26. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure income part of the portfolio totalled £327.2m. 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.

There was also a signed commitment to a non-investment fixed grade income investment at 31 March 2013 which totalled £65m.

27. 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 2013, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 85 scheduled and 172 admitted bodies.
- The Pension Fund Committee comprises 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 2012/13. 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.

Lancashire County Council

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

The council incurred costs of £3.8million (2011/12: £3.4 million) in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to Pension and Investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £63.4 million to the fund in 2012/13 (2011/12:£68.5m million). All monies owing to and due from the fund were paid in year.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire Council County. The cash and bond holdings at 31st March 2013 are detailed in note 14.

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.

28. Icelandic Investment

The Lancashire County Pension Fund had £2.4m on deposit. The Winding up Board published details of LBI's financial position as at 31 December 2012, this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 49.7% of the total claim has now been repaid. The exact timing and amounts of future distributions is not known at this stage.

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

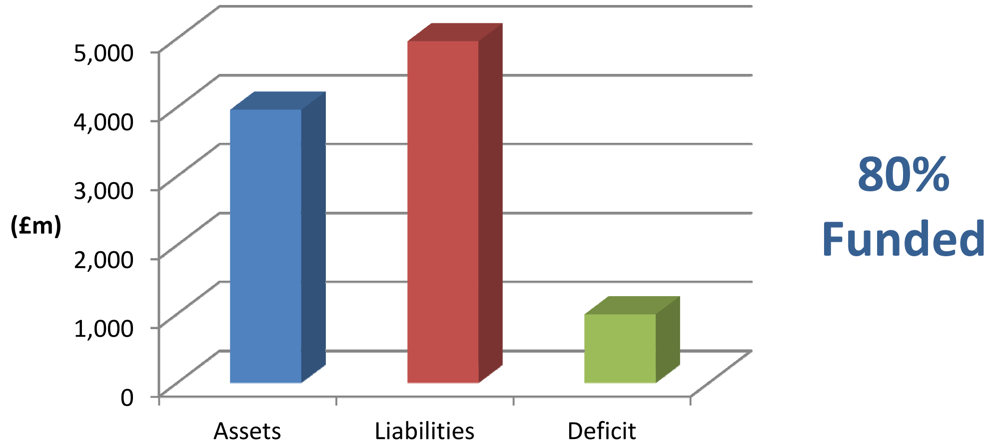
29. Funding Arrangements

Accounts for the year ended 31 March 2013 - Statement by the Consulting Actuary

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

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

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



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

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

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

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

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

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

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

The assets were assessed at market value.

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

30. 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 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.5% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund’s promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £6,254 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by *c*£814 million. Adding interest over the year increases the liabilities by a further *c*£306 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by *c*£1 million. The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2013 is therefore £7,373 million.

The policy for funding the promised retirement benefits is set out in the Funding Strategy Statement, the long term funding objective being for the Fund to achieve and maintain sufficient assets to cover 100% of projected accrued liabilities.

Glossary

Accounting Policies

The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses

A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Agency services

Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation

An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation

A contribution to or from a financial reserve.

Audit qualification

A comment made by the auditors if they are not completely satisfied with the accounts.

Budget

A statement which reflects the County Council's policies in financial terms and which sets out its spending plans for a given period.

Capital assets

Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors

Amounts owed by the county council for spending on buying or improving assets.

Capital elements

Various items of costs eg materials and interest payments.

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 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 value

Amount spent on capital.

Capitalise

To treat as capital expenditure rather than revenue expenditure.

Cash balance

Cash available to invest on the money market.

Cash equivalents

Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions

Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items

Central overheads eg payroll costs.

Change in accounting estimate

An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

Class of tangible non current assets

The classes of tangible non current assets required for inclusion in the accounting statements are:

Operational assets:

- Council dwellings.
- Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets – these are inalienable assets, expenditure on which is only recoverable by continued use of the asset created, (ie there is no prospect of sale or alternative use). Examples are maintenance of highways and footpaths.
- Community assets – these are assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Non Operational Assets:

- Surplus asset
- Assets under construction

CIPFA

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund

The system used by district and borough councils to keep council tax separate from their own accounts. The amount in the fund each year is fed into the council tax calculation for the following year.

Construction contract

A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities

Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Contributions equivalent premium

Money that is repaid to the DSS when someone opts out of the county pension scheme and rejoins the state scheme. All benefits are repaid as if that person had never left the state scheme.

Corporate and democratic core

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to the services.

Corporate governance

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Council Tax precept

The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The County Council's Council Tax income is charged through a precept on the district councils' collection funds. (The Environment Agency also charges the County Council a precept for flood prevention purposes).

County Fund

The main revenue fund used to provide County Council services. Income to the fund consists of the county precept on the collection funds, government grants and other income.

Creditors

Amounts owed by the County Council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities

Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)

The increase in the County Council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption

This is where a debt is repaid early.

Debtors

Amounts owed to the County Council which had not been paid by the date of the balance sheet.

Deferred charge

Capital expenditure which does not produce an asset that is controlled by the County Council – for example, grants to other authorities for capital purposes.

Deferred credit

Money received but not yet reported as income in the revenue account.

Deferred liabilities

Debts to be settled some time in the future, but the actual date is not certain.

Defined benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation

Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)

The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)

An organisation set up within the county council to carry out certain activities subject to competitive tendering.

Employer's pension contributions

Payments to the pension scheme made by the county council for current employees.

Exchange Transactions

The authority receives assets or services or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services and use of assets) to another entity in exchange.

Expected return on assets (IAS 19)

The average rate of return expected on investment assets held by the pension scheme.

Fair value

The amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial year

The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges

Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets

Assets intended to be used for several years – for example, buildings, machinery and vehicles.

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.

Landfill Allowance Trading Scheme (LATS)

The scheme allocates tradable landfill allowances to each waste disposal authority in England. Authorities can buy, sell or carry forward landfill allowances depending on usage requirements.

Local Authority Business Growth Incentive Scheme (LABGI)

This scheme provides incentive for local authorities to promote economic growth by allowing them to retain a proportion of any increase in business rates revenues.

Local Public Service Agreement (LPSA)

Government initiative whereby demanding performance targets are set to deliver improvements for local people through partnerships with district councils and other organisations.

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision

The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate

The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more that the retail price index. 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 (ie their historical cost or current value less the cumulative amounts provided for depreciation).

Net nil trading position

This is where spending matches income.

Net current replacement cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, (ie the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset).

Net debt

The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net pension liability

The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value

The amount for which an asset can be sold, less the cost of selling it.

Nil consideration

Where no charge is made for an item.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-cash adjustments

Changes in debtors' and creditors' balances over the year.

Non-distributed costs

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets

Assets which are not in use.

Operating lease

A lease where ownership of the goods remains with the company leasing them.

Operational assets

Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Participating interest

When an organisation owns a significant proportion of shares (normally 20% or more) in another company.

Past service cost or gain (IAS 19)

The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to 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 (ie 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.

Related party

A person or organisation which has influence over another person or organisation.

Reserves

Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value

The amount an asset can be sold for, less the cost of selling it.

Revenue account

An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue contribution to capital outlay

This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

Revenue expenditure

The county council's day-to-day spending. This 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.

Soft loan

A type of loan in which the terms and conditions of repayment are more generous than they would be under normal finance circumstances.

Specific grants

Government grants for a particular service – for example, the Standards Fund Grant.

Stock

Materials and consumable goods bought but not yet used at the end of the accounting period.

Tangible assets

Assets which have a physical form – for example, buildings, furniture and equipment.

Total net worth

The total net value of resources available to or owned by the council.

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.

Undischarged obligations

Payments we are committed to make in the future.

Withholding tax

A tax on dividend income, charged at source.

Write down

This is where amounts are charged to the revenue account or offset against another balance sheet account.