



# Statement of Accounts

## 2014-15

# Lancashire County Council

## Statement of Accounts 2014/15

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# Introduction to the statement of accounts

## Purpose of the statement of accounts

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

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

## Contents of the statement of accounts

The main parts of the statement of accounts are:

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

## Revenue spending in 2014/15

The overall financial health of the county council at the end of the 2014/15 financial year continues to be strong. However, over 2015/16 to 2017/18 the county council is facing a considerable financial challenge including reducing resources, as well as cost pressures from the continuing increase in

demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

Despite the difficult environment the council has continued to demonstrate:

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

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

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

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

- a) An underspend of £14.3m in the Environment directorate mainly due to savings being achieved within the waste budget referred to above, expenditure on subsidised bus services being lower than budgeted with contract costs being smaller due to lower fuel costs and tender prices not being increased to recover the Bus Service Operators Grant which was previously paid directly to bus operators but is now paid straight to local authorities and concessionary travel also underspending due to lower fuel costs and reduced passenger journeys.
- b) Corporate spending was £1.9m less than budget, the majority of which relates to £1.6m underspend on the Care and Urgent Needs Support Scheme.
- c) Lancashire County Commercial Group (LCCG) has delivered an underspend of £2.5m due to ongoing operational efficiencies within the services, the uptake on free school meals being higher than budgeted and occupancy levels in care homes being higher than budgeted.
- d) The 2014/15 capital financing outturn is £69.6m under budget mainly due to gains realised following the sale of bonds. These sales have been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

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

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

## Capital spending in 2014/15

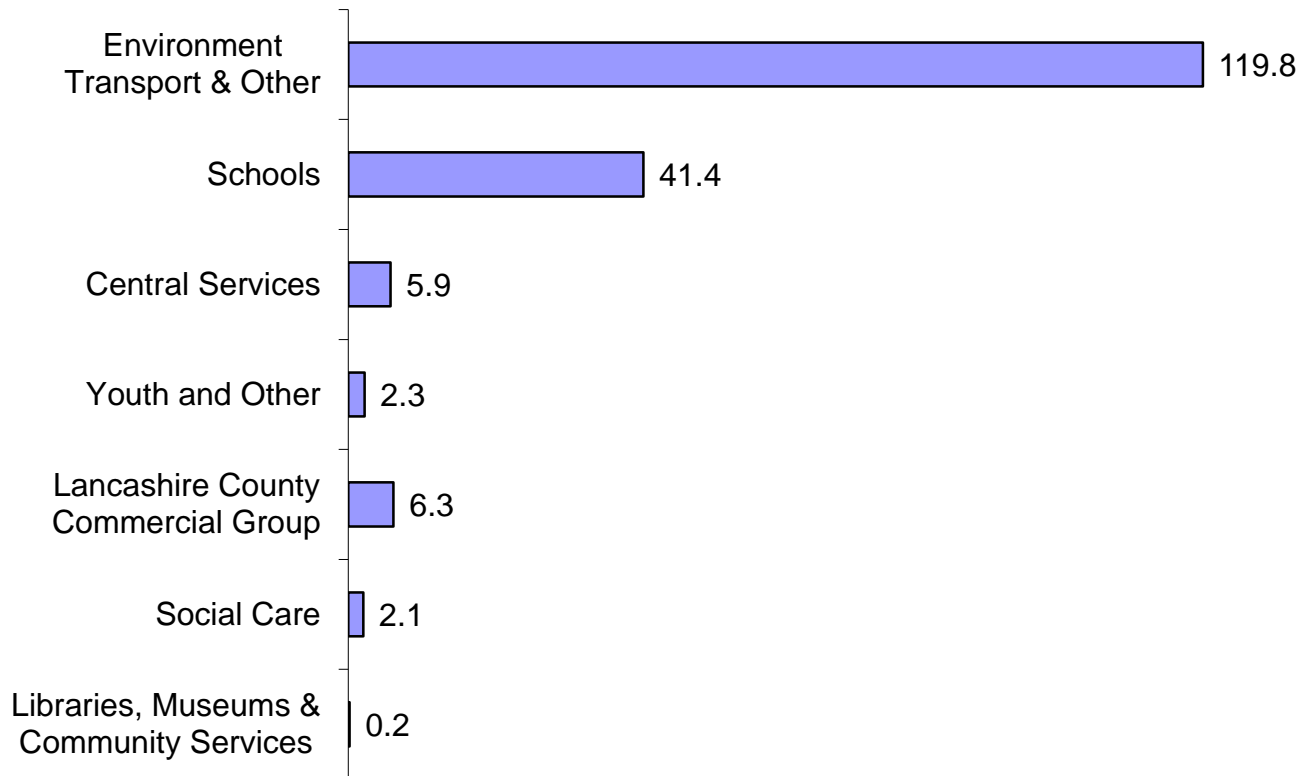
The total of the county council's capital spending in 2014/15 was £178.0m. This reflects the county council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

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

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

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

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



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

## Schools Spending

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

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

The overall picture on individual schools balances is shown below:



	Balance as at 1 April 2014	Net change in balances	Balances as at 31 March 2015
	£m	£m	£m
Nursery	1.0	(0.1)	0.9
Primary	32.1	4.5	36.6
Secondary	15.6	(3.1)	12.5
Special	6.0	(1.2)	4.8
Short stay Primary	0.3	0.1	0.4
Short stay Secondary	0.9	0.3	1.2
<b>Total</b>	<b>55.9</b>	<b>0.5</b>	<b>56.4</b>

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

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

## Outlook for the future

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

- Although the most recent demand forecasts are included in the budget any additional increases in demand will add further pressure to future budgets. The council continues to face significant budget pressures due to demands for Adults Social Care and Learning Disability Services. In addition, the impact of national changes relating to Ordinary Residence, the Winterbourne Concordat and Deprivation of Liberty Safeguards, adds further pressure on resources. Children's Social Care agency placement costs is another area affected by financial pressures due to increased demand. The council is working to source and commission suitable placement and support services, as well as focusing on recruiting and retaining foster carers.
- The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. The impact of business rates appeals presents a continuing risk to income from business rates.
- The resources to be received from the Government beyond 2015/16 is currently unknown. Future budget assumptions will continue to be reviewed in line with improved information and to ensure that appropriate time is available to consider potential strategies and policy options for the future.



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

**Abigail Leech**

**Acting Section 151 Officer**

**28 September 2015**

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

We have audited the financial statements of Lancashire County Council for the year ended 31 March 2015 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, the other funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Lancashire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Acting Section 151 Officer and auditor**

As explained more fully in the Statement of the Acting Section 151 Officer's Responsibilities, the Acting Section 151 Officer 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the 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 Acting Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the introduction to the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on 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 2015 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 2014/15 and applicable law.

## Opinion on other matters

In our opinion, the information given in the introduction to the statement of accounts 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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.

**Basis for qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience we have considered the following matters:

- the Council's Chief Internal Auditor has been unable to give an overall opinion on the operation of the Council's system of internal control for the year; and
- when the Council's procurement function was brought back in-house on 1 April 2014, management identified contracts in excess of £20m for which a tender waiver was required since the contract had either already expired, or would do so before a procurement process could be run;

These matters are evidence of weaknesses in the Council's arrangements for financial governance

**Qualified Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for the qualified conclusion paragraph above, 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 2015.

**Delay in certification of completion of the audit**

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 in 2013. 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

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

Grant Thornton UK LLP,

4 Hardman Square,

Spinningfields,

Manchester

M3 3EB

30 September 2015

# Statement of responsibilities for the statement of accounts

## The county council's responsibilities

We must;

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

## The responsibilities of the Section 151 officer

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

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

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

The Section 151 officer also:

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

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

**Abigail Leech ACA**

**Acting Section 151 Officer**

**28 September 2015**

# Annual Governance Statement – Financial Year 2014/15

## The council's responsibilities

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

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

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

## The purpose of the Governance Framework

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

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

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

## Governance issues in 2013/14

The Annual Governance Statement for 2013/14 highlighted that the county council had experienced exceptional challenges during 2013/14 which had absorbed and diverted a considerable amount of senior leadership time. These circumstances had impacted upon a number of the issues relevant to the adequacy and effectiveness of the council's control environment highlighted by the Chief Internal Auditor's Annual Report which resulted in an overall limited assurance of the council's control environment.

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

The council's leadership and management team acknowledged that the exceptional events of 2013/14 had been a diversion having a direct impact on the assessment in the Chief Internal Auditor's report. It was recognised that a number of key aspects of the report for 2013/14 which



related to high risk areas of operation could be attributed to failures in the delivery of services by One Connect Limited (OCL). These had been addressed by the renegotiation of the Strategic Partnership arrangements and the return of key services to the council.

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

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

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

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

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

## Emerging governance issues in 2014/15

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

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

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

## Chief Internal Auditor's Annual Report 2014/15

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

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

## Risk Management

In relation to the need to embed a systematic approach to identifying strategic risks and opportunities, Management Team engaged Grant Thornton to facilitate a workshop for the purposes of identifying strengths and weaknesses in current practice; consider the trend and current pitfalls across the sector; identify the key strategic risks facing the council and consider the mitigation

measures already in place or which should be introduced; and consider the practical next steps to formalise arrangements.

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

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

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

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

### **The council's Transformation Programme**

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

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

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

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

## **Financial Management**

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

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

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

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

## **The Better Care Fund**

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

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

## Peer Review

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

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

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

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

## Procurement

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

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

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

## Proposals for a Combined Authority for Lancashire

An important recent development has been the exploration of alternative decision-making arrangements for Lancashire, including moves toward a Combined Authority model. To this end,

local authorities in Lancashire have been actively working together to consider and define new governance and collaboration arrangements.

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

### **Implementation of Liquidlogic**

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

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

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

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

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

### **Other Sources of Assurance**

In addition to the opinion provided through the work of the Internal Audit Service, the council can also draw upon external sources of assurance such as the outcomes of the LGA Peer Review Challenge and assessments provided by organisations such as Ofsted and the Care Quality Commission.



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

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

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

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

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

### **The council's Governance Framework**

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



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

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

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

The council agreed three cross-cutting priorities:

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

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

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

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

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

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

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

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

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

### **Translating the vision into objectives for the council and its partnerships**

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

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

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

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

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

### **Decision-making and conduct**

The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the leader and deputy leader of the council. The responsibilities of the individual cabinet members are outlined in the council's constitution. In 2014/15, a full review of the council's decision making arrangements was undertaken via a member/officer working group, reporting to Full Council. Detailed alternative options for a committee system and a "hybrid" system were drafted,

and the outcome of the review was to maintain the current Cabinet model. The working group continues to meet at the request of Full Council to consider some aspects of the decision making arrangements, such as Full Council procedures and the roles of some committees.

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

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

## **Scrutiny**

The council has four scrutiny committees.

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

## **Partnership arrangements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Ensuring effective management of change and transformation**

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

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

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

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

The county council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the county council to significantly reduce the level of its annual revenue expenditure. The council's financial planning and

management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

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

The council's Internal Audit Service operates in accordance with professional standards and is a key element of the corporate governance framework. However, going forward Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the council's size and the current arrangements are therefore to be the subject of a fundamental review. See also section Internal Control (page 27) below.

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

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

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

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

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

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

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

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

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



## **Whistleblowing and for receiving and investigating complaints from the public**

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

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

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

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

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

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

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

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

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

- The website [www.lancashire.gov.uk](http://www.lancashire.gov.uk), which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county



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

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

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

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

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

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

## **Internal control**

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

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

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

around new services/structures. As a consequence it is not proposed that Internal Audit will provide an overall assurance opinion over internal controls for 2015/16.

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

## **Key issues**

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

## **Review of effectiveness and a programme of improvement**

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

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

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

Signed:

Jennifer Mein

Jo Turton

Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date 23<sup>rd</sup> July 2015

Date 23<sup>rd</sup> July 2015

# Financial Statements

## Movement in Reserves Statement

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

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

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

**2014/15**

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

**2013/14**

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

<sup>1</sup>Restated comparative year to include reserves of services which were previously traded services

## Comprehensive Income and Expenditure Statement

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

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



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

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

<sup>2</sup>Comparatives have been restated since the presentation of the of the Education Services Grant has changed to reflect the nonspecific nature of the grant

## Balance Sheet

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

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

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

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

<sup>1</sup> Note 23 only includes financial liabilities that meet the definition of a financial instrument

## Cash Flow Statement

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

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

Abigail Leech ACA  
Acting Section 151 Officer  
28<sup>th</sup> September 2015

County Councillor Terry Brown  
Chair of the Audit and Governance Committee  
28<sup>th</sup> September 2015

# Notes to the financial statements

## 1. Accounting policies

- **General**

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

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

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

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

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

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

- **Accruals of income and expenditure**

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

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

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- **Cash and cash equivalents**

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

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

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

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

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

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

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

- **Employee benefits**

- **Employee benefits payable during employment**

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

The accrual is charged to the surplus or deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday

benefits are charged to revenue in the financial year in which the holiday absence occurs.

- **Termination benefits**

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

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

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

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by Lancashire County Council; and
- The NHS Pension Scheme administered by NHS Business Services Authority on behalf of The Secretary of State for Health.

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

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

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

### **Lancashire County Pension Fund**

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

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



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

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

- **Current service cost**

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

- **Past service and curtailments costs**

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

- **Administrative expenses**

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

- **Net interest on the net defined benefit liability (asset)**

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

- **Re-measurements (assets)**

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

- **Re-measurements (liabilities)**

These are subdivided into:

**Gain/loss on financial assumptions and gain/loss on demographic assumptions**

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

**Experience gains/losses on liabilities**

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

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

**Discretionary benefits**

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

- **Events after the reporting period**

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

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

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

- **Financial liabilities**

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

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

- **Financial assets**

Financial assets are classified into three types:

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

- **Loans and receivables**

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

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

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

the revised future cash flows discounted at the asset's original effective interest rate.

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

- **Available-for-sale assets**

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

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

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

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

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

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

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

- **Fair value through profit and loss**

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

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

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

- **Government grants and contributions**

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

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

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

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

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

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

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

- **Heritage Assets**

The CIPFA Code of Practice defines Heritage Assets as any asset that is held as a contribution to knowledge or culture. The council has a number of assets which are held and maintained principally for their contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage Assets. These assets have been



valued at fair value in accordance with the policy on Property, Plant and Equipment. Any acquisitions have initially been valued at cost if purchased or at a valuation if donated.

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

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

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

- **Long term contracts**

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

- **Overheads and support services**

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

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

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

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

- **Leases**

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

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

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

- **Property, Plant and Equipment**

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

- **Recognition**

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

- **Measurement**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### • **Impairment**

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

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

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

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

#### • **Depreciation**

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

Depreciation is calculated on the following bases:

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



- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 10 to 50 years depending upon the nature of the asset.

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

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

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

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

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

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

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

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

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

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

- **Private Finance Initiatives (PFI)**

PFI contracts are agreements to receive services, where responsibility for making available the Property Plant and Equipment needed to provide services passes to the PFI contractor. As the council is deemed to control the services that are provided under our PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the

council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

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

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

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

#### • **Recognition of assets and liabilities**

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

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

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

#### • **Prepayments**

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

#### • **Minimum Revenue Provision (MRP)**

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

#### • **Development costs**

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

- **Deductions from the unitary payment**

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

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

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

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

- **Provisions**

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

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

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

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

- **Contingent liabilities**

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

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

- **Reserves**

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

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

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

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

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

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

- **Value Added Tax (VAT)**

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

- **Collection Fund agency arrangements**

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

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

Lancashire County Council is a major preceptor with 12 districts.

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

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

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

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

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

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

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

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

## 2. Critical judgements in applying accounting policies

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

The critical judgements made in the Statement of Accounts are:

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

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

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

- The council has to determine whether there is a group relationship between the council and other entities. The relationship that exists between the council and other entities has been assessed in accordance with the accounting standards and the finance guidance provided by CIPFA. The council's relationships with other entities can be found in note 39. The 2014/15 accounts do not include a set of group accounts for the following reasons:
  - The omission of Group Accounts will not affect the ability of a user of the accounts to determine the financial position and performance of the County Council, or its exposure to risk.



- There is low level of financial risk to the council from its involvement with group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1. There is a very low level of involvement from group members in delivering the council's statutory or significant core services. Where there is more involvement in core activities then the council funds the entity and as a result the costs are already included in the accounts of LCC.
- Local Authority maintained schools, in line with relevant accounting standards and the Code are considered to be separate entities with the balance of control lying with the council. The council has substantive control over the use of school assets and a statutory duty to provide education. There are not considered to be any significant restrictions on the ability to access or use these assets.
- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the council's Balance Sheet. The valuations are undertaken by in-house qualified staff that follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2015. After consideration no requirement had arisen in 2014/15.
- The property, plant and equipment balance includes properties valued at some £687m which are not owned by the council. These are principally voluntary aided (VA), voluntary controlled (VC) and foundation schools which form approximately 50% of schools in Lancashire. Historically it has been LCC policy to include foundation, community, VA and VC schools assets on the balance sheet in line with accounting guidance and the CIPFA code of practice. In Lancashire there are a significant number of school buildings for which trustees have legal ownership rights but LCC benefit from using these properties in terms of delivery of service and LCC also meet the costs of service provision. The council has considered *Appendix E 'Accounting for schools in local authorities in England and Wales' to the 2014/15 Code update* and has concluded that the changes do not impact on the existing accounting treatment for schools. They are consequently retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

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

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

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

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

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

- **Pensions Liability**

- Uncertainties:

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

(see note 41)

- Effect if actual results differ from assumptions:

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

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

- Uncertainties:

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

(see note 21)

- Effect if actual results differ from assumptions:

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

## 5. Minimum Revenue Provision

Our accounts must include a charge for the repayment of debt. This charge must be an appropriate amount of our adjusted capital financing requirements at the start of the year. For 2014/15 this charge is £30.2m<sup>1</sup> which is shown within the Movement in Reserves Statement (£27.6m<sup>2</sup> in 2013/14).

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

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

<sup>1</sup> This includes £5.4m relating to the waste treatment facilities

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

**Notes to the Movement in Reserves Statement****6. Adjustments between accounting basis & funding basis under regulations**

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

**2014/15**

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



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

**2013/14**

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

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

## 7. Transfers to and from earmarked reserves

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

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

**2013/14<sup>1</sup>**

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

<sup>1</sup>Restated comparative year to include only earmarked reserves.

## 8. Revenue reserves

The county council's revenue reserves are described below:

### Reserves held to meet spending pressures

- Business Rates Volatility Reserve:

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

### Reserves held to deliver corporate priorities

- Strategic Investment Reserve:

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

### Reserves held to deliver organisational change

- Downsizing Reserve:

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

- Risk Management Reserve

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

### Reserves held to pay for expenditure commitments

- Funding of capital projects:

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

### Schools' reserves

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

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

### Reserves held to meet service priorities (directorates reserves)

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

## 9. Other operating expenditure

	2014/15	2013/14
	£m	£m
Levies for flood defences and inshore fisheries and conservation authorities	1.0	0.8
(Gains)/losses on the disposal of non-current assets	(7.0)	31.3
Other operating income/expenditure	(0.3)	-
<b>Total</b>	<b>(6.3)</b>	<b>32.1</b>

## 10. Financing and investment income and expenditure

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

<sup>1</sup>This relates to the refinancing of Waste Treatment Facilities

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

<sup>3</sup> Lancashire County Commercial Group is no longer an arm's length trading organisation

## 11. Taxation and non-specific grants income

	2014/15 £m	2013/14 £m
Council Tax Income	(380.2)	(364.4)
Non Domestic Rates	(169.2) <sup>1</sup>	(165.5)
Revenue Support Grant	(212.6)	(256.9)
Education Services Grant	(20.1)	(20.5) <sup>2</sup>
Other Non-Specific Grants	(3.2)	-
Council Tax Freeze Grant	-	(5.1)
Recognised Capital Grants and Contributions	(152.2)	(98.1)
<b>Total</b>	<b>(937.5)</b>	<b>(910.5)</b>

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

<sup>2</sup>Comparatives have been restated since the presentation of the Education Services Grant has changed to reflect the non-specific nature of the grant

## 12. Amounts reported for resource allocation decisions

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

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



<b>Directorate Income &amp; Expenditure</b>	<b>Adult, Social, Health &amp; Wellbeing</b>	<b>Children &amp; Young People</b>	<b>Environment</b>	<b>Other Directorates</b>	<b>Total</b>
<b>2014/15</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fees, charges & other service income	(89.3)	(62.0)	(61.0)	(161.5)	(373.8)
Government grants	(53.2)	(910.2)	(10.0)	(131.2)	(1,104.6)
<b>Total Income</b>	<b>(142.5)</b>	<b>(972.2)</b>	<b>(71.0)</b>	<b>(292.7)</b>	<b>(1,478.4)</b>
Employee expenses	83.9	700.0	45.0	174.3	1,003.2
Other service expenses	386.1	439.5	194.8	236.4	1,256.8
Support service recharges	-	-	-	-	-
<b>Total Expenditure</b>	<b>470.0</b>	<b>1,139.5</b>	<b>239.8</b>	<b>410.7</b>	<b>2,260.0</b>
<b>Net Expenditure</b>	<b>327.5</b>	<b>167.3</b>	<b>168.8</b>	<b>118.0</b>	<b>781.6</b>

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

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

## Reconciliation to subjective analysis

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

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

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

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

## Reconciliation to subjective analysis

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

<sup>1</sup>Comparatives have been restated since the presentation of the Education Services Grant has changed to reflect the nonspecific nature of the grant

### 13. Grant income

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

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

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

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

## 14. Dedicated Schools' Grant

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

This includes;

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

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

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

Comparative data for 2013/14 can be seen below:

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



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

## 15. Pooled budgets

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

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

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

## 16. External audit costs

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

## 17. Members' allowances

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

## 18. Senior officers' remuneration

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

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

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

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

<sup>1</sup> Benefits In Kind relate to lease car payments and/or excess mileage.

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

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

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

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

<sup>1</sup> Benefits In Kind relate to lease car payments and/or excess mileage.

<sup>2</sup> The County Treasurer's employment with the council ceased on 27<sup>th</sup> March 2015.

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

<sup>4</sup> The County Secretary & Solicitor ceased employment with the council on 31<sup>st</sup> July 2014.

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

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

<sup>1</sup> Benefits In Kind relate to lease car payments and/or excess mileage.

<sup>2</sup> The Executive Director for Adult Services, Health & Wellbeing was appointed on 12th August 2013.

<sup>3</sup> The Interim Executive Director for the Environment was appointed on 20th August 2013.

<sup>4</sup> The Director for Public Health was appointed on 1st November 2013.

## Number of Employees – 2014/15

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

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

<sup>1</sup> Remuneration bands have been removed in cases where the entry for every column was zero.

<sup>2</sup> Includes those who work for BT Lancashire Services (BTLS), Lancashire County Developments Limited (LCDL) and NHS England.

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

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

Number of Employees – 2013/14<sup>1</sup>

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

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

<sup>1</sup> Prior year comparatives restated as a result of improvements made to reporting systems.

<sup>2</sup> Remuneration bands have been removed in cases where the entry for every column was zero.

<sup>3</sup> Includes those who worked for One Connect Limited (OCL), Lancashire County Developments Limited (LCDL) and NHS England.

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

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

## Exit packages

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

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

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



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

## 19. Private Finance Initiative (PFI) schemes

### Fleetwood Sports College

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

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

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

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

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

To help finance the scheme we received the following income:

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

### Building Schools for the Future

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

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

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

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

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

To help finance the scheme we received the following income:

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

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

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

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

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

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFIs are changes in inflation and changes in demand for the services. There is provision within the agreements for the

termination of the contracts, under certain conditions, by either the council or by the contractor. This may be in the form of voluntary termination by the council, termination by the contractor council default, or termination by the council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

### **Lancashire Waste PFI scheme**

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

## 20. Capital expenditure and capital financing

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

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

### Future capital spending commitments

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

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

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

## 21. Property, Plant and Equipment

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

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

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

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



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

### Effects of changes in estimates

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

### Depreciation

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

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

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

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

### Property, Plant and Equipment valuation

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

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

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

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

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

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

## 22. Heritage Assets

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

Lancashire also holds a special Libraries Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the

library service they are to be treated as a heritage asset and a valuation made. Again, these valuations have been made by internal professional staff and it is estimated that the collection is valued at £14.6m.

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

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

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

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

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

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

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

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

## 23. Financial instruments

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

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

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

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

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

<sup>1</sup> This includes a premium of £24.3m in relation to the refinancing of Waste Treatment Facilities

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

## 25. Fair value of financial assets and liabilities

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

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

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

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

**Table 1**

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

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

**Table 2**

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

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

## 26. Nature and extent of risks arising from financial instruments

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

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

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

### Credit risk

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

With regard to financial institutions the risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration which the county council can be invested in an institution depending upon the quality of credit rating and over the 2014/15 financial year, despite the downgrading of the UK Government, the investment portfolio has maintained a very high AA credit rating. However, in



the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

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

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

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

Comparative data for 2013/14 can be seen below:

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

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

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

### Liquidity risk

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

Lancashire County Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the county council has ready access to borrowings from the money markets and the Public Works Loans Board and access to their investment portfolio which is also considered to be liquid. There is no significant risk that the

county council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates however this is not considered to be material. The Director of Financial Resources will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

### **Market risk**

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

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

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

### **Market Risk – Borrowings**

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

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

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

The Director of Financial Resources will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

### **Market Risk – Investments**

A fall in the fair value of fixed rate investments that are held for trading will result in a charge to the surplus or deficit on the provision of services, reducing the County Fund balance. A fall in the fair value available-for-sale investments will be reflected in other comprehensive income. A fall in the fair value of other investments will have no impact on the primary financial statements, but will be disclosed in the notes to the accounts.

The county council also holds index linked investments the fair value of which rises as inflation rises, and a Lender Option Borrower Option (LOBO) loan for which the expense charged to the surplus or deficit on the provision of services will fall as interest rates rise. All of these instruments are part of a strategy to take advantage of current market conditions whilst managing interest rate risk.

The Treasury Management team is constantly refining the active strategy for assessing interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The following table attempts to quantify the interest rate risk looking back at the 31 March 2015 position.

<b>The effect if interest rates were 1% higher with all other variables held constant:</b>	<b>£m</b>
Increase in interest payable on variable rate borrowings	4.6
Increase in interest receivable on variable rate investments	(1.8)
Decrease in fair value of investments held for trading*	4.6
<b>Impact on surplus on the provision of services</b>	<b>7.4</b>
Decrease in fair value of fixed rate available for sale investment assets	30.4
<b>Impact on other Comprehensive Income &amp; Expenditure</b>	<b>37.8</b>
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(9.4)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(30.8)

\* Note that a rise in interest rates is also likely to result in a rise in inflation expectations which will cause the fair value of index linked investments to rise and partly offset the charge to the Surplus on the Provision of Services

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

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

This risk management process has begun with the inverse Lender Options Borrower Option loan outlined above. Regarding the investment portfolio it is anticipated that, in the current environment, any interest rate rises would follow a prolonged period of rising inflation, and therefore the current holding of inflation linked AAA rated bonds would provide some protection against the operating cost inflation risk.

## 27. Debtors

	<b>31/03/2015</b>	<b>31/03/2014</b>
	<b>£m</b>	<b>£m</b>
Central Government Bodies	23.0	22.5
NHS Bodies	16.2	11.3
Other Public Corporations	0.1	-
Other Local Authorities	25.0	19.8
Other Debtors	71.5	56.3
<b>Total</b>	<b>135.8</b>	<b>109.9</b>

Other debtors mainly comprises of low value high volume debtors for supply of goods and services with the exception of council tax owing £16.7m (£14.6m in 2013/14) and NNDR owing £1.0m in 2014/15 (£0.7m in 2013/14).

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £34.8m in 2014/15 (£30.9m in 2013/14). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

## 28. Creditors

	31/03/2015	31/03/2014
	£m	£m
Central Government Bodies	(19.8)	(20.5)
Other Local Authorities	(14.8)	(19.4)
NHS Bodies	(5.3)	(6.8)
Accumulated Absences	(23.3)	(29.7)
Other Creditors	(141.3)	(134.7)
<b>Total</b>	<b>(204.5)</b>	<b>(211.1)</b>

Central Government Bodies include PAYE & NI £14.0m (£14.3m in 2013/14).

Other creditors mainly comprise low value high volume creditors for the purchase of goods and services with the exception of £23.0m (£0.0m 2013/14) for the purchase of investments, PFI £1.9m (£10.2m in 2013/14) and Adult Social Care non-residential placements £12.0m (£8.3m in 2013/14).

## 29. Cash and cash equivalents

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

	31/03/2015	31/03/2014
	£m	£m
Cash held by council	0.8	0.7
Bank current accounts	22.2	33.0
Short term deposits under 3 months	107.3	57.7
<b>Total cash and cash equivalents</b>	<b>130.3</b>	<b>91.4</b>

### 30. Provisions

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

	Balance as at 1 April 2014 £m	Additional provision made in 2014/15 £m	Spending met from the provision in 2014/15 £m	Unused amounts reversed in 2014/15 £m	Balance as at 31 March 2015 £m
<b>Total Long Term Provisions</b>	<b>(18.8)</b>	<b>(6.3)</b>	<b>11.1</b>	<b>0.2</b>	<b>(13.8)</b>
<b>Total Short Term Provisions</b>	<b>(8.1)</b>	<b>(17.4)</b>	<b>6.5</b>	<b>1.0</b>	<b>(18.0)</b>
<b>Total Provisions</b>	<b>(26.9)</b>	<b>(23.7)</b>	<b>17.6</b>	<b>1.2</b>	<b>(31.8)</b>

Total Long Term provisions include Insurance Provision of £10.4m (£15.2m in 2013/14).

Total Short Term provisions include Early Retirement Early Severance provision of £9.9m (£0.5m in 2013/14) and National Non-domestic Rate (NDR) provision of £5.2m (£2.5m in 2013/14).

### 31. Usable reserves

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

## 32. Unusable reserves

The table below gives detail of the county council's unusable reserves:

	31/03/2015	31/03/2014
	£m	£m
Available for Sale Financial Instruments Reserve	6.6	27.4
Financial Instruments Adjustment Account	48.2	27.1
Revaluation Reserve	(674.2)	(665.0)
Capital Adjustment Account	(1,020.0)	(999.8)
Pension Reserve	1,238.2	905.1
Collection Fund Adjustment Account	(6.4)	(2.8)
Accumulated Absences Account	23.2	29.7
<b>Total Unusable Reserves</b>	<b>(384.4)</b>	<b>(678.3)</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2014/15	2013/14
	£m	£m
<b>Balance as at 1 April</b>	<b>27.4</b>	<b>1.1</b>
Upward revaluation of investments	(20.8)	-
Downward revaluation of investments not charged to the surplus/deficit on the Provision of Services	-	26.3
<b>Balance as at 31 March</b>	<b>6.6</b>	<b>27.4</b>

### Financial Instrument Adjustment Reserve

The financial instruments adjustment account absorbs the timing arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2014/15	2013/14
	£m	£m
<b>Balance as at 1 April</b>	<b>27.1</b>	<b>29.6</b>
Premiums incurred in year and charged to the Comprehensive Income & Expenditure Statement	24.3 <sup>1</sup>	-
Proportion of premiums incurred in previous financial years to be charged against county fund balance	(3.2)	(2.5)
<b>Balance as at 31 March</b>	<b>48.2</b>	<b>27.1</b>

<sup>1</sup>This relates to the refinancing of waste treatment facilities.

## Revaluation Reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation or;
- Disposed of and the gains are realised.

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2014/15	2013/14
	£m	£m
<b>Balance as at 1 April 2014</b>	<b>(665.0)</b>	<b>(663.2)</b>
Upward revaluation of assets	(59.4)	(70.8)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	38.9	56.1
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(20.5)</b>	<b>(14.7)</b>
Difference between fair value depreciation and historical cost depreciation	10.1	9.4
Accumulated gains on assets sold or scrapped	1.2	3.5
<b>Amount written off to the Capital Adjustment Account</b>	<b>11.3</b>	<b>12.9</b>
<b>Balance as at 31 March 2015</b>	<b>(674.2)</b>	<b>(665.0)</b>

## Capital Adjustment Account

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

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

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 details the source of all the transactions posted to the account.

	2014/15 £m	2013/14 £m
<b>Balance as at 1 April 2014</b>	<b>(999.8)</b>	<b>(930.2)</b>
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</u>		
Charges for depreciation and impairment of non-current assets	48.0	47.2
Revaluation losses on Property, Plant and Equipment including assets held for sale	128.8	38.4
Amortisation of intangible assets	3.9	2.8
Revenue expenditure funded from capital under statute	18.9	8.7
Reversal of charge re transfer of academies	-	13.3
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	6.0	22.7
Write down of Private Finance Initiative (PFI) liability	(6.3)	(7.6)
Adjusting amounts written out of the Revaluation Reserve	(11.3)	(12.9)
	<b>(811.8)</b>	<b>(817.6)</b>
<u>Capital financing applied in the year</u>		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(125.5)	(78.6)
Application of capital grants to capital financing from the Capital Grants Unapplied Account	(25.3)	(59.5)
Application of receipts to capital financing from the Capital Receipts Reserve	(11.4)	-
Statutory provision for the financing of capital investment charged against the County Fund	(30.2)	(27.6)
Capital expenditure charged against the County Fund	(15.8)	(16.4)
	<b>(208.2)</b>	<b>(182.1)</b>
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	-	1.5
Reclassifications – PPE adjustments and waste PFI deferred consideration write out	-	(1.6)
<b>Balance as at 31 March 2015</b>	<b>(1,020.0)</b>	<b>(999.8)</b>

## Pensions Reserve

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

The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities



recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31/03/2015	31/03/2014
	£m	£m
<b>Balance as at 1 April 2014</b>	<b>905.1</b>	<b>1,127.1</b>
Re-measurements of the net defined benefit liability/(asset)	301.9	(273.8)
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	125.0	134.9
Employer's pension contributions and direct payments to pensioners payable in the year	(93.8)	(83.1)
<b>Balance as at 31 March 2015</b>	<b>1,238.2</b>	<b>905.1</b>

### 33. Long term debtors

Long term debts to the council are shown below:

	31/03/2015	31/03/2014
	£m	£m
Transferred Debt <sup>1</sup>	39.1	41.1
Finance Lease Debtor <sup>2</sup>	35.1	-
<b>Total</b>	<b>74.2</b>	<b>41.1</b>

<sup>1</sup>Transferred debt is debt which we manage for other authorities as a result of various local government reorganisations, which is being repaid over time.

<sup>2</sup>Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor, as below:

<b>Finance lease debtor (net present value of minimum lease payments)</b>	<b>31/03/2015</b>
	£m
Current	2.2
Non-current	52.9
Unearned finance income	20.0
Gross investment in the finance lease	35.1

The gross investment in the finance lease will be received over the following periods:

	<b>Gross investment in the lease 31/03/2015 £m</b>	<b>Minimum lease payments 31/03/2015 £m</b>
Not later than one year	0.9	2.2
Later than one year but not later than five years	3.8	9.0
Later than five years	30.4	43.9
<b>Total</b>	<b>35.1</b>	<b>55.1</b>

### Cash flow statement notes

### **34. Cash flows from operating activities: Interest (memorandum)**

The cash flows below i.e. interest received and interest paid are included in the cash flows from operating activities.

	<b>2014/15 £m</b>	<b>2013/14 £m</b>
Interest Received	(83.9)	(18.5)
Interest Paid	41.2	63.9

### 35. Cash flows from operating activities

	2014/15 £m	2013/14 £m
<b>Net (surplus) or deficit on the provision of services</b>	<b>(48.6)</b>	<b>19.9</b>
<u>Adjustment to surplus or deficit on the provision of services for non-cash movements</u>		
Depreciation	(48.0)	(47.2)
Impairment and downward valuations	(128.8)	(39.9)
Amortisation of intangible assets	(3.9)	(2.8)
Increase/(Decrease) in impairment provision for bad debts	3.8	5.5
(Increase)/Decrease in creditors	21.1	(1.3)
Increase/(Decrease) in debtors	15.0	(8.4)
Increase/(Decrease) in inventories	(0.2)	0.5
Movement in pension liability	(31.2)	(51.8)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	(6.0)	(36.0)
Other non-cash items charged to the net surplus on the provision of services	(5.3)	3.1
	<b>(183.5)</b>	<b>(178.3)</b>
<u>Adjust for items included in the net surplus on the provision of services that are investing or financing activities</u>		
Capital Grants credited to the surplus on the provision of services	152.2	98.1
Net proceeds from the sale of short and long term investments	71.9	0.8
Proceeds from the sale of property plant and equipment, investment property and intangible assets	13.1	4.7
	<b>237.2</b>	<b>103.6</b>
<b>Net Cash Flows from Operating Activities</b>	<b>5.1</b>	<b>(54.8)</b>

### 36. Cash flows from investing activities

	2014/15 £m	2013/14 £m
Purchase of Property, Plant and Equipment, investment property and intangible assets	166.3	134.3
Purchase of investments	12,186.0	877.2
Other payments for investing activities	35.5	0.7
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(13.1)	(4.7)
Proceeds from the sale of investments	(12,282.0)	(827.4)
Other capital grants and receipts from investment activities	(151.6)	(86.2)
<b>Net Cash Flows from Investing Activities</b>	<b>(58.9)</b>	<b>93.9</b>

### 37. Cash flows from financing activities

	2014/15 £m	2013/14 £m
Cash receipts from borrowing	(1,275.5)	(1,260.5)
Appropriation to/from Collection Fund Adjustment Account	3.7	2.6
Repayment of borrowing	1,059.1	1,185.4
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	227.6	7.6
<b>Net Cash Flows from Financing Activities</b>	<b>14.9</b>	<b>(64.9)</b>

### 38. Acquired operations

On 31 July 2014 LCC acquired Global Renewables Lancashire Operations Limited (GRLOL), a company which operates facilities for the processing of municipal waste on behalf of LCC.

The company was acquired to ensure that the operation of the waste facilities be optimised in order to improve performance across all areas of the services and reduce costs, particularly by maximising the diversion of waste from landfill.

Prior to acquisition by LCC the company was a special purpose company established to fulfil the operating commitments of the LCC Waste PFI contract. LCC acquired 100% of the company for the nominal sum of £1 on termination of the PFI contract. The effective share of ownership of the operating company is 87.5% LCC and 12.5% Blackpool Council. The proportionate ownership is in line with joint working arrangements between LCC and Blackpool Council and in line with the previous PFI contract.

The assets acquired on termination of the PFI agreement are the shares in GRLOL, at a nominal value of £1. The net assets of GRLOL, measured under IFRS, amount to £nil at both the acquisition and balance sheet dates and hence the difference between the consideration of £1 and the net identifiable assets acquired, measured at acquisition-date fair values does not result in the recognition of goodwill on acquisition.

The fair value of acquired receivables was £1.7m, other acquired assets £7.1m and liabilities £8.8m, resulting in a net acquired fair value of £nil.

The profit of GRLOL for the year to 31<sup>st</sup> March 2015 was £5.0m per the unaudited financial statements of the company, a copy of which can be obtained from the registered office at PO Box 78, County Hall, Fishergate, Preston, Lancashire PR1 8XJ.

## 39. Related parties

We are required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

### Central Government

Central government has significant influence over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in note 13 on reporting for resources allocation decisions.

### Members

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

<http://www.lancashire.gov.uk/council/transparency/registers/county-councillors-register-of-interests/>

Our code of conduct requires county councillors to declare any related interests they have and to take no part in meeting or decisions on issues involving those interests.

In preparing this statement of accounts we have asked all councillors to fill in a declaration about any interests which they or their family may have in organisations that we deal with. These interests include:

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

Revealed below is a list where councillors or a member of their family are involved and have significant control with an organisation.

There were a number of transactions that were identified between Lancashire County Council and these organisations.

None of the transactions were classed as significant to Lancashire County Council.

- CC Barrie Yates is a board member of New Progress Housing, the organisation received payments totalling £941,644.
- CC Steven Holgate is a non-executive director for Adactus Housing Group, the organisation received payments totalling £355,610.

- CC Ian Brown is a board member of Ribble Valley Homes, the organisation received payments totalling £133,833.
- CC Jennifer Mein is a trustee at Emmaus Preston, the charity received payments totalling £69,129.
- CC Mike Otter is a trustee at Community Futures and Lancashire West Citizens Advice Bureau. Community Futures received payments totalling £6,312 and Lancashire West Citizens Advice Bureau received payments totalling £53,262.
- CC Alan Schofield is a trustee director at Ribble Valley Citizens Advice Bureau, the organisation received payments totalling £25,000.
- CC Carl Crompton is a board member of Gift 92, the charity received payments totalling £20,832.

Some county councillors hold positions on companies referred to in the companies section of this note, therefore any transactions between the two entities are referred to in that section.

### **Officers**

Our senior officers may influence our financial and operating policies. The officers of the Management Team have filled in a declaration about their related interest and those of their family. This has revealed that the Management Team officers had roles in the following organisations during 2014/15.

- Gill Kilpatrick, the county treasurer was treasurer to the Lancashire County Pension fund until 27th March 2015.
- Steve Browne, interim executive director for environment is also chairman of the board of Preston's College. The College received payments totalling £654,595.

### **Lancashire County Pension Fund**

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

The council incurred costs of £4,533,986 (2013/14: £4,246,713) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £79,496,428 to the fund in 2014/15 (2013/14: £69,121,159). All monies owing to and due from the Fund were paid in year.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire Council County.

### **Global Renewables Lancashire Operations Limited**

This company was acquired by LCC on 31 July 2014. Please refer to note 38 above for more details of the acquisition. The company's board of directors currently comprises five County Councillors and one Blackpool Councillor. LCC and Blackpool make quarterly payments to fund the running of the company and reimburse monthly payments to third party specialist waste disposal companies. Payments to GRLOL from 1st August 2014 to 31st March 2015 were £18,822,655 for the running and lifecycle costs and £6,070,163 for the reimbursed costs. Unspent waste minimisation and local market development funds totalling £1,463,148 were transferred back to Lancashire County Council. At 31st March 2015 the amount owed by LCC to GRLOL is £148,202. The amount owed to LCC from GRLOL at 31st March 2015 is £87,500. These all exclude Blackpool's 12.5% share.

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

## **BT Lancashire Services Limited.**

From 1st April 2014 the partnership between BT and Lancashire County Council (One Connect Limited) was terminated. The company became a wholly owned BT subsidiary and was renamed BT Lancashire Services Limited.

## **Lancashire County Developments Ltd**

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

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

Sales to Lancashire County Council during the year amount to £4,133,019 (2013/14: 3,329,345). Purchases from Lancashire County Council amount to £1,801,952 (2013/14: £3,254,488). The amount owed by Lancashire County Council to this related party at 31 March 2015 is £923,790 (2013/14: £3,006,955). The amount owed to Lancashire County Council from this related party at 31 March 2015 is £nil (2013/14: £31,647).

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

## **The Via Partnership (formerly CXL)**

CXL was incorporated on 11th January 2007 to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. CXL changed its name to The Via Partnership Limited on the 4 April 2013.

The Via Partnership is owned by Lancashire County Council with 40% shares; Blackburn with Darwen Borough Council with 30% shares; and Blackpool Borough Council with 30% shares. The voting rights of each council in general meetings of the company directly reflect their shareholdings. Senior representatives of the three councils are members of the board.

In 2013/14 Financial Year the three shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1million for working capital purposes to be repaid over the next eight to ten years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Council £300,000 and Blackpool Council £300,000).

During the year, the company declared purchases of £50,631 from Lancashire County Council and a creditor balance of £90,536 due to Lancashire County Council. Sales for the year to Lancashire County Council are £472,743 and the amount owed by Lancashire County Council to The Via Partnership as at 31st March 2015 amounts to £65,007.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from The Via Partnership Ltd registered office: County Hall, Preston, Lancashire, PR1 8XJ.

## **Marketing Lancashire Limited**

Marketing Lancashire Ltd was created in 2004. It is one of four tourist boards that succeeded the North West Tourist Board. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. County councillors are represented on the board.

During the year, the company declared purchases of £22,085 (2013/14: £nil) from Lancashire County Council and a creditor balance of £nil (2013/14: £nil) due to its member Lancashire County Council. Sales for the year to Lancashire County Council are £82,766 (2013/14: £37,170) and the



amount owed by Lancashire County Council to Marketing Lancashire as at 31st March 2015 amounts to £1,382 (2013/14: £1,902).

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

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Marketing Lancashire Ltd (formerly Lancashire and Blackpool Tourist Board Ltd) in the past.

### **Lancashire Sports Partnership Ltd**

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 local authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college as a company limited by guarantee with a Board of Trustees.

During the year, the company received funding of £15,000 (2013/14: £21,577) from its member, Lancashire County Council. The company paid £6,106 (2013/14: £9,629) to Lancashire County Council for the use of conferencing facilities and for the recharge of other services.

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

### **Lancashire Workforce Development Partnership Limited**

This organisation is a Company Limited by Guarantee providing support through products and services designed to improve the skills and knowledge of the independent and private social care sector workforce within the Lancashire County Council boundaries. It is controlled by Lancashire County Council within the meaning of Part V of the Government and Housing Act (1989) with a liability limited to £1.

An amount of £700,000 (2013/14: £1,200,000) was received in the year under a service agreement with Lancashire County Council. In addition Lancashire Workforce Development Partnership invoiced Lancashire County Council for room hire of £nil (2013/14: £134). Lancashire Workforce Development Partnership also paid £45,446 in contributions (2013/14: £58,366) to the Local Government Pension Scheme administered by Lancashire County Council.

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

### **Public Transport Information Ltd**

Public Transport Information (PTI) Ltd provides a public transport information service. It is part of the national Traveline network. PTI Ltd is a company limited by guarantee and has no issued share capital. The liability of a member is limited to £1.

Lancashire County Council made contributions to the company of £47,778 (2013: £102,521) during the year. During the year, Public Transport Information Limited acquired licenses with a total cost of £3,400 (2013: £2,355) on behalf of Lancashire County Council which were subsequently recharged at cost. At the year end, Lancashire County Council were owed £nil (2013: £nil) by Public Transport Information Limited, and owed £nil (2013: £nil) to the company.

A copy of the accounts can be obtained from Companies' House, [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

### **Healthwatch Lancashire Limited**

Healthwatch Lancashire Limited commenced operations on 1st April 2013 and is commissioned by the county council to undertake statutory functions on the council's behalf.

Healthwatch is the independent consumer champion for both health and social care. It exists in two distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire is to give citizens and communities a stronger voice to influence and challenge how health and social care services are provided within their locality. Healthwatch



Lancashire also provides or signposts people to information to help them make choices about health and care services.

During the year, the company has declared purchases of £109 (2013/14: £7,200) from Lancashire County Council. Funding received during the year from Lancashire County Council amounts to £788,000 (2013/14: £305,000).

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

## 40. Contingent liabilities

There may be a contingent liability flowing from a recent decision in the Employment Appeal Tribunal that 'non-guaranteed' overtime (overtime that the employer does not guarantee to provide) is to be included in the calculation of holiday pay in certain circumstances. This only applies to the four weeks' holiday pay entitlement which derives from the EU working time directive (referred to as Regulation 13 holiday entitlement under the Working Time Regulations 1998). As regards to the payment of back pay, this is limited. If there is a gap of more than three months, during which there is no underpayment of holiday pay, then an employee cannot argue that a further underpayment forms part of the same series of deductions. Furthermore, The Deductions from Wages (Limitation) Regulations 2014 were brought into force on the 1st July 2015 and limit claims for deductions from wages to two years from the date of the deduction.

## 41. Defined Benefit Pension schemes

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31 March 2014 and on revalued average salary (a "career average" scheme) for service from 1 April 2014 onwards.

At 31 March 2015 the council's principal pension arrangement for its employees was the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2014, and at that date showed a funding level of 78% (assets of £5.0bn against accrued liabilities of about £6.4bn). The weighted average duration of the liabilities of the Fund as a whole is 18 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

In addition, the council also participates in some other defined benefit pension arrangements, also governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

### **Teachers**

The council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The council is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.

### **Health workers**

Again, the council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

### **Government and risk management**

The liability associated with the council's pension arrangements is material to the council, as is the cash funding required. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

## **Lancashire County Pension Fund**

### **Governance**

Management of the Fund is vested in Lancashire County Council as Administering Authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

### **Funding the liabilities**

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2014, which showed a shortfall of assets against liabilities of £1.38 billion as at that date, equivalent to a funding level of 78%. The fund's employers are paying additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the council's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

### **Risks and Investment Strategy**

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

### **Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange

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

### **Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors.

### **Currency risk**

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

### **Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

### **Liquidity risks**

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

### **Other risks**

Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the council's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis below indicates the change in the defined benefit obligation for changes in the key assumptions.

### **Amendments, curtailments and settlements**

The provisions of the Fund were amended with effect from 1 April 2014. As explained above for service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the council's assets and liabilities as a result of employing members who have accrued benefits with the council.

## **Schemes for teachers and transferred NHS staff**

### **Governance**

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the council. Again, the council has no material involvement in this process.

## Funding the liabilities

Contributions to the arrangements are set by the government for these Teachers and NHS staff pension schemes, having taken advice from the government actuary, so no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the council is responsible.

Only this additional pensions to retired teachers' part of the liability which directly falls to the council is recognised within the council's balance sheet and these liabilities are shown under teachers' pension scheme figures within the tables below. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2014/15	2013/14	2014/15	2013/14
	£m	£m	£m	£m
<u>Comprehensive Income and Expenditure Statement</u>				
Cost of Services:				
Current service cost	73.0	87.7	-	-
Past service cost	0.1	0.2	-	-
Curtailment costs	12.9	0.8	-	-
Admin Expenses	1.5	1.4	-	-
<u>Financing and Investment Income and Expenditure</u>				
Net Interest Expense	31.8	39.5	5.8	5.3
<b>Total Post Employment Benefit Charged to the Surplus on the Provision of Services</b>	<b>119.3</b>	<b>129.6</b>	<b>5.8</b>	<b>5.3</b>
<u>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</u>				
Re-measurement of the net defined benefit liability, comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(172.3)	(4.5)	-	-
Experience (gains)/losses on liabilities	-	(45.5)	-	1.2
Actuarial (gains)/losses arising from changes in financial assumptions	463.8	(232.8)	10.4	(7.9)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	13.1	-	2.6
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>410.7</b>	<b>(140.1)</b>	<b>16.2</b>	<b>1.2</b>
<u>Movement in Reserves Statement</u>				
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	119.3	129.6	5.8	5.3
<u>Actual amount charged against the general fund balance for pensions in the year</u>				
Employers contributions payable to the scheme	82.9	71.9	10.9	11.2

## Investment risks

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the council's contributions to them.

## Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

## Transactions relating to Retirement Benefits

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

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

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

In 2014/15 we paid £45.9m to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£45.9m and 14.1% in 2013/14). We also paid £0.5m in 2014/15 for NHS Public Health Staff transferred across from NHS from 1 April 2013 which represents 14% of pensionable pay (£0.5m and 14% in 2013/14)

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2014/15 these amounted to £8.4m, representing 2.6% of pensionable pay (£8.5m and 2.6% in 2013/14).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a re-measurement of the net defined liability loss of £301.9m (£273.8m gain in 2013/14) were included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss £478.3m.

## Assets and liabilities in relation to Retirement Benefits

Reconciliation of the movements in fair value of the scheme assets:

<b>Lancashire County Pension Fund</b>	<b>2014/15</b>	<b>2013/14</b>
	<b>£m</b>	<b>£m</b>
<b>Opening balance as at 1 April</b>	<b>2,093.0</b>	<b>2,009.1</b>
Re-measurement (assets)	172.3	4.5
Interest on plan assets	92.0	84.3
Admin expenses	(1.5)	(1.4)
Employer Contributions	82.9	71.9
Contributions from scheme participants	22.5	22.2
Benefits/Transfers paid	(107.9)	(97.6)
<b>Closing balance as at 31 March</b>	<b>2,353.3</b>	<b>2,093.0</b>

## Reconciliation of present value of the scheme liabilities:

	<b>Funded liabilities:</b>		<b>Unfunded liabilities:</b>	
	<b>Lancashire County Pension Fund</b>		<b>Teachers' Pension Scheme</b>	
	<b>2014/15</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2013/14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening balance as at 1 April</b>	<b>(2,858.0)</b>	<b>(2,986.1)</b>	<b>(140.0)</b>	<b>(150.1)</b>
Current service cost	(73.0)	(87.7)	-	-
Interest on pension liabilities	(123.9)	(123.8)	(5.8)	(5.3)
Contributions from scheme participants	(22.5)	(22.2)	-	-
Benefits/Transfers paid	107.8	97.6	10.9	11.2
Curtailment cost	(12.9)	(1.3)	-	-
Gain/loss from settlements	-	0.5	-	-
Past service cost	(0.1)	(0.2)	-	-
<u>Re-measurement gains and (losses)</u>				
Experience gains/(losses) on liabilities	-	45.5	-	(1.2)
Actuarial gains/(losses) arising from changes in financial assumptions	(463.8)	232.8	(10.4)	7.9
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(13.1)	-	(2.6)
<b>Closing balance as at 31 March</b>	<b>(3,446.4)</b>	<b>(2,858.0)</b>	<b>(145.3)</b>	<b>(140.1)</b>

Local Government Pension Scheme assets comprised:

<b>Fair value of scheme assets</b>	<b>31/03/2015</b>	<b>31/03/2014</b>
	<b>£m</b>	<b>£m</b>
<b>Cash and cash equivalents</b>	<b>114.0</b>	<b>36.4</b>
Equity instruments:		
<u>By Industry</u>		
Consumer	260.2	269.5
Manufacturing	144.8	166.6
Energy and utilities	52.6	84.9
Financial institutions	139.5	154.4
Health and care	80.0	94.4
Information technology	133.1	138.9
Miscellaneous	-	5.7
<b>Sub-total equity</b>	<b>810.2</b>	<b>914.4</b>
Bonds:		
<u>By Sector</u>		
Corporate	32.7	192.8
Government	73.9	64.2
<b>Sub-total bonds</b>	<b>106.6</b>	<b>257.0</b>
Property:		
<u>By Type</u>		
Retail	95.7	78.7
Commercial	125.9	92.5
<b>Sub-total property</b>	<b>221.6</b>	<b>171.2</b>
Private equity:		
UK	59.1	52.6
Overseas	83.7	57.5
<b>Sub-total private equity</b>	<b>142.8</b>	<b>110.1</b>
Other investment funds:		
Infrastructure	131.0	113.9
Property	17.2	10.5
Miscellaneous	810.4	479.5
<b>Sub-total other investment funds</b>	<b>958.6</b>	<b>603.9</b>
<b>Total assets</b>	<b>2,353.8</b>	<b>2,093.0</b>



## Scheme history

The amounts included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
<b><u>Present value of scheme liabilities</u></b>					
Local Government Pensions Scheme	(2,372.0)	(2,555.4)	(2,986.1)	(2,858.0)	(3,446.4)
Teachers' Pensions Scheme	(136.2)	(137.4)	(150.1)	(140.1)	(145.4)
<b>Fair value of assets in the Lancashire County Pension Fund</b>	<b>1,743.0</b>	<b>1,753.2</b>	<b>2,009.1</b>	<b>2,093.0</b>	<b>2,353.6</b>
<b><u>Surplus/(deficit) in scheme</u></b>					
Lancashire County Pension Fund	(629.0)	(802.1)	(977.0)	(765.0)	(1,092.8)
Teachers' Pensions Scheme	(136.2)	(137.4)	(150.1)	(140.1)	(145.4)
<b>Total</b>	<b>(765.2)</b>	<b>(939.5)</b>	<b>(1,127.1)</b>	<b>(905.1)</b>	<b>(1,238.2)</b>

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £1,238.2m in 2014/15 has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in net assets of £858.2m.

However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2016 is £52.1m. Expected contributions for the Teachers and Health Workers in the year to 31 March 2016 are £40.4m and £0.4m respectively.

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2015. The principal assumptions used by the actuary have been as follows:



	2014/15	2013/14
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity investments	6.5%	7.00%
Bonds	2.4%	4.08%
Other	Dependent on type of asset	Dependent on type of asset
<b>Mortality assumptions:</b>		
Longevity at 65 current pensioners:		
Men	22.9 years	22.8 years
Women	25.4 years	25.3 years
Longevity at 65 for future pensioners:		
Men	25.1 years	25.0 years
Women	27.8 years	27.7 years
Rate of inflation (CPI)	2.00%	2.40%
Rate of increase in salaries	3.50%	3.90%
Rate of increase in pensions	2.00%	2.40%
Rate for discounting scheme liabilities	3.20%	4.40%

The rate of return is not applicable to the Teachers' Pension Scheme since it has no assets to cover its liabilities. The Lancashire County Pension Fund's assets consist of the following categories:

	31/03/2015	31/03/2014
	%	%
Equity investments	49.2	57.7
Bonds	4.5	12.3
Other assets	46.3	30.0
	<b>100.0</b>	<b>100.0</b>

### Sensitivity analysis

The methods used to carry out the sensitivity analyses presented above for the material assumptions are the same as those the council has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	Decrease in Assumption
	£m	£m
Longevity (increase or decrease in 1 year)	67.47	(67.47)
Rate of inflation (increase or decrease by 1%)	624.74	(624.74)
Rate of increase in salaries (increase or decrease by 1%)	139.81	(139.81)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(613.62)	613.62

## Other funds

### Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area. The capital accounts in the table below show the value of the investment money that has been bequeathed.

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

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

The movements on fund balances are summarised below.

	<b>Adult Services, Health &amp; Wellbeing 2014/15 £000s</b>	<b>Children &amp; Young People 2014/15 £000s</b>	<b>Other 2014/15 £000s</b>	<b>Total 2014/15 £000s</b>	<b>Total 2013/14 £000s</b>
<u>Capital Accounts</u>					
Balances at 1 April	(3.5)	(196.4)	(0.8)	(200.7)	(198.2)
Net Movement in funds	(0.3)	(18.2)	-	(18.5)	(2.5)
<b>Balances at 31 March</b>	<b>(3.8)</b>	<b>(214.6)</b>	<b>(0.8)</b>	<b>(219.2)</b>	<b>(200.7)</b>
<u>Revenue Accounts</u>					
Balances at 1 April	(6.7)	(62.8)	(19.9)	(89.4)	(77.2)
Income received	-	(4.9)	(15.5)	(20.4)	(23.0)
Less payments during the year	-	-	11.0	11.0	7.7
<b>Balances at 31 March</b>	<b>(6.7)</b>	<b>(67.7)</b>	<b>(24.4)</b>	<b>(98.8)</b>	<b>(92.5)</b>
<b>Aggregate Balances at 31 March (Capital Revenue)</b>	<b>(10.5)</b>	<b>(282.3)</b>	<b>(25.2)</b>	<b>(318.0)</b>	<b>(293.2)</b>

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# Lancashire County Pension Fund

Accounts  
2014 / 2015

# Accounts of the Fund

## Responsibilities for the statement of accounts

### The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Section 151 officer, who is also the Section 151 officer to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

### The responsibilities of the Section 151 officer to the Pension Fund

The Section 151 officer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

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

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

In addition, the Section 151 officer to the Pension Fund has:

- Kept proper accounting records which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2015 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

**Abigail Leech ACA**

**Acting Section 151 Officer**

**28th September 2015**

# Annual Governance Statement 2014/15

## Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31<sup>st</sup> March 2015 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 153,203 members across 218 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

## The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

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

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

[http://www.yourpensionservice.org.uk/local\\_government/index.asp?siteid=5921&pageid=33736&e=e](http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e)

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework *"Delivering Good Governance in Local Government"*. The code is available from the County Council's website at the following link

[http://www3.lancashire.gov.uk/corporate/atoz/a\\_to\\_z/service.asp?u\\_id=1821&tab=1](http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1)

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs

stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2014.

## **The Fund's Governance Framework**

The key elements of the systems and processes that comprise the Fund's governance framework are:

### **The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.**

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

### **Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements**

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

### **Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.**

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.



A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

**Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.**

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

**Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.**

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

**Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.**

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

**Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.**

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery

- Data Quality
- Fund Employer Risks

### **Fulfilling the core functions of an Audit Committee**

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

### **The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful**

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

### **Whistle blowing and receiving and investigating complaints from the public**

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

### **Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.**

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

### **Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.**

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

### **The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.**

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. During 2014/15 the County Treasurer, as the County Council's Chief Finance Officer, was separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority. Following a restructure of the County Council's management from 1<sup>st</sup> April 2015 the functions of Chief Finance Officer have passed to the Director of Financial Resources while the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

## **Review of Effectiveness**

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2014/15 were:

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;
- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.
- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.
- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.
- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;
- To embed the processes associated with the Fund's risk register in the management of the Fund.
- To review the transparency and scale of charges made by the County Council for services provided to the Fund.
- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.
- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved a formalisation of the Fund's overall arrangements for the management of the different categories of risk to which it is exposed.

During the Year changes were made to the Fund's overall governance arrangements to accommodate the creation of the new statutory Local Pension Board as an oversight body. This resulted in the discontinuation of the Pension Fund Administration Sub Committee, which oversaw a range of administration related matters.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor (from 1<sup>st</sup> April 2015 the Director of Finance, Governance and Public Services) as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Chief Internal Auditor (from 1<sup>st</sup> April 2015 the Head of Service – Internal Audit) was during the year managerially accountable to the County Treasurer, and from 1<sup>st</sup> April 2015 will be managerially accountable to the Director of Legal and Democratic Services. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.
- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.
- During the year the Chief Internal Auditor's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Chief Auditor's Annual Report for 2014/15 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.
- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.
- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

### **Actions Planned for 2015/16**

The following specific actions are proposed for completion during 2014/15.

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pension Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

5 June 2015

County Councillor K Ellard  
Chair of the Pension Fund Committee

George Graham  
Director  
Lancashire County Pension Fund



## **Independent auditor's statement to the members of Lancashire County Council.**

We have audited the pension fund financial statements of Lancashire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Lancashire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Section 151 Officer to the Pension Fund and auditor**

As explained more fully in the Statement of responsibilities for the statement of accounts the Section 151 Officer to the Pension Fund is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the pension fund financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer to the Pension Fund; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Introduction to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

## **Opinion on other matters**

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

Karen Murray  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
30 September 2015

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



# Lancashire County Pension Fund

## Fund account

		2014/15	2013/14
	Note	£m	£m
<b>Dealing with members, employers and others directly involved in the Fund</b>			
Contributions	6	238.0	214.0
Transfers in from other pension funds	7	4.8	7.1
		<b>242.8</b>	<b>221.1</b>
Benefits	8	(240.2)	(221.1)
Payments to and on account of leavers	9	(100.1)	(15.3)
Management expenses	10	(35.4)	*(31.3)
		<b>(375.7)</b>	<b>*(267.7)</b>
<b>Net withdrawals from dealings with members</b>		<b>(132.9)</b>	<b>*(46.6)</b>
<b>Returns on investments</b>			
Investment income	11	90.7	105.3
Profit and losses on disposal of investments and changes in the market value of investments	14	684.7	*118.4
<b>Net return on investments</b>		<b>775.4</b>	<b>*223.7</b>
<b>Net increase / (decrease) in the net assets available for benefits during the year</b>		<b>642.5</b>	<b>177.1</b>
<p>*Prior year restated to include all investment fees directly incurred by the Fund, including those charged on pooled fund investments previously accounted for within the valuation of investments.</p>			

# Lancashire County Pension Fund

## Net assets statement

as at 31 March 2015

	Note	31/03/15 £m	31/03/14 £m
Investment assets	14	6,383.1	4,877.3
Cash deposits	14	60.0	315.5
		<b>6,443.1</b>	<b>5,192.8</b>
Investment liabilities	14	(629.6)	(21.3)
Current assets	20	28.1	28.3
Current liabilities	21	(10.9)	(11.7)
<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>5,830.7</b>	<b>5,188.1</b>

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended.

**Abigail Leech ACA**

**Acting Section 151 Officer**

**County Councillor Terry Brown**

**Chair of the Audit and Governance Committee**

# Notes to the financial statements

## 1. Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

The published accounts show that in 2014/15 cash inflows during the year consisted of £333.5 million and cash outflows were £375.7 million, representing a net cash outflow of £42.2 million (compared with an inflow of £58.7 million in the previous year). Benefits payable amounted to £240.2 million and were partially offset by net investment income of £90.7 million (including £11.7 million accrued dividends); contributions of £238 million and transfers in of £4.8 million. A bulk transfer out of £89.6 million in relation to the transfer of employment from the Probation Trust to Greater Manchester Pension Fund contributed to the overall cash outflow, as did the temporary investment of cash in liquid bond funds and directly held investment grade bonds to commit to investments in line with the Fund's investment strategy.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

### 1.1 General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The Fund is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees of Lancashire County Council, the district councils in Lancashire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the Fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at [Your Pension Service - Lancashire Fund Information](#)

## 1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 320 employer organisations (2013/14: 297 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 218 have active members (2013/14: 210) as detailed below:

<b>Lancashire County Pension Fund</b>	<b>31/03/15</b>	<b>31/03/14</b>
Total number of employers	320	297
Number of employers with active members	218	210
Number of active scheme members		
County Council	27,405	27,501
Other employers	26,774	27,243
<b>Total</b>	<b>54,179</b>	<b>54,744</b>
Number of pensioners		
County Council	21,765	21,068
Other employers	21,446	21,210
<b>Total</b>	<b>43,211</b>	<b>42,278</b>
Number of deferred pensioners		
County Council	29,148	28,058
Other employers	26,665	25,837
<b>Total</b>	<b>55,813</b>	<b>53,895</b>
<b>Total membership</b>	<b>153,203</b>	<b>150,917</b>

## 1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31<sup>st</sup> March 2015 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

## 1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	<b>Service Pre 1 April 2008</b>	<b>Service post 31 March 2008</b>	<b>Service post 1 April 2014</b>
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49 <sup>th</sup> x the pensionable pay for that year (or 1/98 <sup>th</sup> of pensionable pay if member opts for the 50/50 section of the scheme)
<b>Lump sum</b>	Automatic lump sum of 3 x salary.  In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum.  Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

## 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2014/15 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 25 of these accounts.

### 3. Accounting policies

#### 3.1 Fund Account - revenue recognition

##### 3.1.1 Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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

##### 3.1.2 Transfers to and from other schemes

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

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

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

##### 3.1.3 Investment income

###### 3.1.3.1 Interest income

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

###### 3.1.3.2 Dividend income

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

###### 3.1.3.3 Distribution from pooled funds

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

**3.1.3.4 Property-related income**

Property-related income consists primarily of rental income.

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

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

**3.1.3.5 Movement in the net market value of investments**

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

**3.2 Fund account – expense items****3.2.1 Benefits payable**

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

**3.2.2 Taxation**

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

**3.2.3 Management expenses**

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs". The comparative figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance.

**3.2.4 Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the Fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

**3.2.5 Oversight and governance expenses**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### 3.2.6 Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2014/15, £2.3m of fees is based on such estimates (2013/14: £2.8m).

The costs of the council's in-house fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the Fund.

## 3.3 Net assets statement

### 3.3.1 Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

### 3.3.2 Market-quoted investments

The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

### 3.3.3 Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

### 3.3.4 Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations



adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

### **3.3.5 Limited partnerships**

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

### **3.3.6 Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

### **3.3.7 Freehold and leasehold properties**

The properties were valued at open market value at 31 March 2015 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9<sup>th</sup> Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

### **3.3.8 Acquisition costs of investments**

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

### **3.3.9 Valuation of investments**

Investments are shown at their fair value as at 31 March 2015. The fair value is the current bid price for quoted securities and unitised securities.

### **3.3.10 Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

### **3.3.11 Derivatives**

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

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

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### **3.3.12 Loans and receivables**

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

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

### **3.3.13 Cash and cash equivalents**

Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

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

### **3.3.14 Financial liabilities**

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

### **3.3.15 Financial liabilities at amortised cost**

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

### **3.3.16 Actuarial present value of promised retirement benefits**

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

As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 25).

### **3.3.17 Additional voluntary contributions**

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

### **3.3.18 Securities lending**

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

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation.

## **4. Critical judgements in applying accounting policies**

### **4.1 Unquoted private equity and infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

### **4.2 Pension Fund liability**

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £601.2m.  There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,236.0m.  There is a risk that these investments might be under or overstated in the accounts.
Bonds secured on affordable housing assets.	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £42.6m in the financial statements.  There is a risk that this may be under or overstated.
Indirect property valuations.	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £43m.  There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £170m.

## 6. Contributions receivable

By category	2014/15 £m	2013/14 £m
Employers	183.2	160.0
Members	54.8	54.0
	<u>238.0</u>	<u>214.0</u>

By authority	2014/15 £m	2013/14 £m
County Council	102.1	91.3
Scheduled Bodies	115.4	104.4
Admitted Bodies	20.5	18.3
	<u>238.0</u>	<u>214.0</u>

By type	2014/15 £m	2013/14 £m
Employee's normal contributions	54.8	54.0
Employer's contributions*	171.7	154.6
Employer's augmentation contributions**	11.5	5.4
	<u>238.0</u>	<u>214.0</u>

\* 2014/15 employer's contributions include £47.3m in respect of deficit contributions.

\*\*Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2014/15, £0.4m is voluntary and additional regular contributions. (2013/14: £0.4m)

## 7. Transfers in from other Pension Funds

	2014/15 £m	2013/14 £m
Individual transfers in from other schemes	4.8	7.1
	<u>4.8</u>	<u>7.1</u>

## 8. Benefits payable

By category	2014/15 £m	2013/14 £m
Pensions	192.0	183.9
Lump sum retirement benefits	41.7	33.2
Lump sum death benefits	6.5	4.0
	<u>240.2</u>	<u>221.1</u>

By authority	2014/15 £m	2013/14 £m
County Council	106.3	93.4
Scheduled Bodies	118.5	112.9
Admitted Bodies	15.4	14.8
	<u>240.2</u>	<u>221.1</u>

## 9. Payments to and on account of leavers

	2014/15 £m	2013/14 £m
Refunds to members leaving service	0.2	0.0
Individual transfers	10.3	12.9
Group transfers	89.6	2.4
	<u>100.1</u>	<u>15.3</u>

As part of a Ministry of Justice review, Greater Manchester Pension Fund (GMPF) was chosen to administer the Local Government Pension Scheme for the National Probation Service from 1<sup>st</sup> June 2014. This resulted in a bulk transfer being made to transfer Lancashire Probation Trust's share of assets to the GMPF.

## 10. Management expenses

	2014/15 £m	2013/14 £m
Administrative costs	3.5	3.6
Investment management expenses	29.2	*25.1
Custody fees	0.2	0.2
Oversight and governance costs	2.5	2.4
	<u>35.4</u>	<u>*31.3</u>

\*Prior year restated in accordance with CIPFA guidance on accounting for management expenses. Investment and management expenses include £15.5m of investment fees directly incurred by the fund and previously accounted for within the valuation of investments.

Investment management expenses include £1m (2013/14: £1.5m) in respect of performance-related fees paid/payable to the Fund's investment managers. Investment management expenses also include £1.8m in respect of transaction costs (2013/14: £1.4m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

## 11. Investment income

	2014/15 £m	2013/14 £m
Fixed interest securities	2.9	31.5
Equity dividends	40.6	36.8
Index linked securities	0.0	1.6
Pooled investment vehicles	15.0	6.4
Net rents from properties	24.3	23.5
Interest on cash deposits	0.5	3.2
Other	7.4	2.3
	<u>90.7</u>	<u>105.3</u>

## 12. Property income

	2014/15 £m	2013/14 £m
Rental income	29.7	27.4
Direct operating expenses	(5.4)	(3.9)
Net income	<u>24.3</u>	<u>23.5</u>

## 13. Stock lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2014/15 was £2.2m (2013/14: £1.2m)

Securities on loan at the 31<sup>st</sup> March 2015 were £86m (2014: £131.7m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £86m of equities (2014: £129.9m equities and £1.8m bonds).

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the fund valuation. The collateral is non cash and totalled £92m of equities (2014: £139.8m bonds).



## 14. Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2014	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value as at 31 March 2015
	£m	£m	£m	£m	£m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	2,639.1	(2,428.3)	684.7	5,739.0
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	5,192.8				6,443.1
Forward currency contracts liability value	(21.3)				(629.6)
<b>Portfolio value</b>	<b>5,171.5</b>				<b>5,813.5</b>

	Market value as at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value as at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investment vehicles	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Direct property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
<b>Portfolio value</b>	<b>4,989.0</b>				<b>5,171.5</b>

## Investments analysed by fund manager

		31/3/15 £m	%	31/3/14 £m	%
<b>Public equity</b>					
External managers	Baillie Gifford	734.1	12.6%	793.0	15.3%
	MFS	334.2	5.7%	269.6	5.2%
	Morgan Stanley	283.5	4.9%	239.4	4.6%
	NGAM	230.8	4.0%	285.8	5.5%
	Robeco	448.5	7.7%	366.7	7.1%
UCITS funds	AGF	266.9	4.6%	239.9	4.6%
	MFG (Magellan)	238.1	4.1%	197.5	3.8%
		<b>2,536.1</b>	<b>43.6%</b>	<b>2,391.9</b>	<b>46.1%</b>
<b>Private equity</b>					
External managers	Capital Dynamics	269.9	4.7%	221.5	4.3%
Direct	Standard Life	7.6	0.1%	0.0	0.0%
		<b>277.5</b>	<b>4.8%</b>	<b>221.5</b>	<b>4.3%</b>
<b>Long-term credit investments</b>					
Senior secured loans	Ares Institutional	123.2	2.1%	106.5	2.1%
	Babson	72.8	1.3%	62.9	1.2%
	Hayfin	44.2	0.8%	20.4	0.4%
	Highbridge	57.1	1.0%	49.6	1.0%
	THL	55.8	1.0%	48.1	0.9%
Loans secured on real assets	Heylo Housing	42.6	0.7%	0.0	0.0%
	Prima	153.5	2.6%	0.0	0.0%
	Westmill	11.7	0.2%	11.9	0.2%
Emerging market debt	Bluebay	128.8	2.2%	81.7	1.6%
	HSBC	58.2	1.0%	47.0	0.9%
	Investec	83.5	1.4%	71.0	1.4%
	Pictet	129.6	2.2%	108.8	2.1%
Credit opportunities	CRC- Christofferson Robb & Co	34.4	0.6%	2.2	0.0%
	EQT	44.3	0.8%	20.0	0.4%
	MFO King Street	54.8	1.0%	47.0	0.9%
	Monarch	53.8	0.9%	48.5	0.9%
	Neuberger Berman	58.8	1.0%	35.5	0.7%
	Pimco Bravo	28.9	0.5%	8.5	0.2%
		<b>1,236.0</b>	<b>21.3%</b>	<b>769.6</b>	<b>14.9%</b>

		31/3/15 £m	%	31/3/14 £m	%
<b>Liquid credit (cash and bonds)</b>					
External managers	Babson	226.9	3.9%	60.0	1.2%
	ING	181.9	3.1%	206.6	4.0%
	Janus	0.0	0.0%	120.1	2.3%
	JP Morgan	0.0	0.0%	120.0	2.3%
	In-house	457.0	7.9%	514.6	10.0%
		<b>865.8</b>	<b>14.9%</b>	<b>1,021.3</b>	<b>19.8%</b>
<b>Infrastructure</b>					
Direct	Arclight Energy	35.9	0.6%	30.1	0.6%
	Capital Dynamics	65.6	1.1%	54.1	1.0%
	Cape Byron				
	Capital Dynamics	32.9	0.6%	25.5	0.5%
	Clean Energy				
	Capital Dynamics Red	92.8	1.6%	93.2	1.8%
	Rose				
	Capital Dynamics US	0.0	0.0%	14.3	0.3%
	Solar				
	EQT Infrastructure	13.1	0.2%	12.3	0.2%
	Global Infrastructure	15.9	0.3%	17.2	0.3%
	Partners				
	Highstar Capital	33.4	0.6%	19.3	0.4%
	Icon Infrastructure	29.8	0.5%	25.4	0.5%
	ISQ Global	4.3	0.1%	0.0	0.0%
	Infrastructure				
		<b>323.7</b>	<b>5.6%</b>	<b>291.4</b>	<b>5.7%</b>
<b>Property</b>					
Direct	Knight Frank	531.4	9.1%	450.5	8.7%
Indirect	Gatefold Hayes	12.9	0.2%	0.0	0.0%
	M&G Europe fund	30.1	0.5%	25.3	0.5%
		<b>574.4</b>	<b>9.8%</b>	<b>475.8</b>	<b>9.2%</b>
<b>Portfolio Value</b>		<b>5,813.5</b>	<b>100.0%</b>	<b>5,171.5</b>	<b>100.0%</b>

	31/03/15 £m	31/03/14 £m
<b>Fixed interest securities</b>		
UK corporate bonds quoted	94.2	76.0
Overseas corporate bonds quoted	54.6	157.0
	<u>148.8</u>	<u>233.0</u>

	31/03/15 £m	31/03/14 £m
<b>Equities</b>		
UK quoted	212.3	231.3
Overseas quoted	1,788.4	1,689.8
	<u>2,000.7</u>	<u>1,921.1</u>

	31/03/15 £m	31/03/14 £m
<b>Index linked securities</b>		
UK quoted	317.9	0.0
	<u>317.9</u>	<u>0.0</u>

	31/03/15 £m	31/03/14 £m
<b>Pooled investment vehicles</b>		
<b>UK managed funds:</b>		
Fixed income funds	58.2	47.0
Venture capital	278.5	264.8
Property funds	12.9	0.0
<b>Overseas managed funds:</b>		
Equity funds	505.0	644.1
Fixed income funds	1,443.8	970.3
Cash funds	0.5	0.0
Property funds	30.1	25.1
Venture capital	411.2	287.6
	<u>2,740.2</u>	<u>2,238.9</u>

	31/03/15 £m	31/03/14 £m
<b>Properties</b>		
UK – freehold	460.6	389.8
UK – long leasehold	70.8	60.7
	<u>531.4</u>	<u>450.5</u>

## Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

	31/03/15 £m	31/03/14 £m
Balance as at start of the year	450.5	434.9
Additions:		
Purchases	57.3	15.0
Construction	2.4	0.0
Disposals	(26.1)	(43.3)
Net gain/loss on fair value	47.3	43.9
Balance as at the end of the year	<u>531.4</u>	<u>450.5</u>

## Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2014/15 £m	2013/14 £m
Leases expiring in the following year	4.0	2.0
Leases expiring in two to five years	13.1	11.9
Leases expiring after five years	13.5	12.4
Total	<u>30.6</u>	<u>26.3</u>

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

## **Analysis of derivatives**

### **Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

### **Forward foreign currency**

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

**Derivative contracts (forward currency positions)**

<b>Settlements</b>	<b>Currency bought*</b>	<b>Local value m</b>	<b>Currency sold*</b>	<b>Local value m</b>	<b>Asset value £m</b>	<b>Liability value £m</b>
Up to one month	GBP	300.0	USD	(442.9)	300.0	(298.4)
Up to one month	USD	445.9	GBP	(300.0)	300.4	(300.0)
One to six months	AUD	3.5	USD	(2.8)	1.8	(1.9)
One to six months	USD	30.4	CHF	(28.7)	20.5	(20.1)
One to six months	USD	5.3	AUD	(5.9)	3.6	(3.0)
One to six months	CHF	8.7	USD	(9.2)	6.1	(6.2)
Open forward currency contracts at 31 March 2015					632.4	(629.6)
Net forward currency contracts at 31 March 2015						2.8
Prior year comparative					£m	£m
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1

\*Currencies are referred to above using International Standards Organisation codes.

GBP – British Pound, USD – US Dollar, AUD – Australian Dollar, CHF – Swiss Franc



	31/03/15 £m	31/03/14 £m
<b>Cash deposits</b>		
Sterling	35.0	148.0
Foreign currency	25.0	167.5
	<u>60.0</u>	<u>315.5</u>

## 15. Financial instruments classification

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

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31/03/15	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
<b>Financial assets</b>			
Fixed interest securities	148.8	-	-
Equities	2,000.7	-	-
Index linked securities	317.9	-	-
Pooled investment vehicles	2,740.2	-	-
Derivative contracts	632.4	-	-
Cash deposits	-	60.0	-
Investment accruals	11.7	-	-
Debtors	-	28.1	-
<b>Total financial assets</b>	<b>5,851.7</b>	<b>88.1</b>	<b>-</b>
<b>Financial liabilities</b>			
Derivative contracts	629.6	-	-
Creditors	-	-	10.9
<b>Total financial liabilities</b>	<b>629.6</b>	<b>-</b>	<b>10.9</b>

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
<b>Financial assets</b>			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	2,238.9	-	-
Derivative contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
<b>Total financial assets</b>	<b>4,426.8</b>	<b>343.8</b>	<b>-</b>
<b>Financial liabilities</b>			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
<b>Total financial liabilities</b>	<b>21.3</b>	<b>-</b>	<b>11.7</b>

## 16. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £634.1m  
(2013/14: £59m)

## 17. Financial instruments – valuation

### 17.1 Valuation of financial instruments carried at fair value

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

#### 17.1.1 Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### 17.1.2 Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

#### 17.1.3 Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

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

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

The following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31/03/15	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
<b>Total financial assets</b>				
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	629.6	-	-	629.6
<b>Total financial liabilities</b>	<b>629.6</b>			<b>629.6</b>

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
<b>Total financial assets</b>	<b>3,314.6</b>	<b>179.9</b>	<b>929.9</b>	<b>4,424.4</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
<b>Total financial liabilities</b>	<b>21.3</b>			<b>21.3</b>

## 18. Nature and extent of risks arising from financial instruments

### 18.1 Risk and risk management

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

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

### 18.2 Market risk

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

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

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

### 18.3 Other price risk

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

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

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

#### 18.3.1 Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2014/15 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.0%
Total equities	9.6%
Alternatives	9.6%
Total property	2.1%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is also shown):

Asset type	31/03/15 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
<b>Total assets available to pay benefits</b>	<b>5,739.0</b>		<b>6,175.9</b>	<b>5,302.0</b>

Asset type	31/03/14 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,250.3	4.8%	1,310.3	1,190.3
Total equities	2,826.5	11.9%	3,162.8	2,490.1
Alternatives	291.2	3.8%	302.3	280.1
Total property	475.5	2.7%	488.3	462.7
<b>Total assets available to pay benefits</b>	<b>4,843.5</b>		<b>5,263.7</b>	<b>4,423.2</b>

#### 18.4 Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/15 £m	31/03/14 £m
Cash and cash equivalents	60.0	315.5
Fixed interest securities	1,650.8	1,250.3
<b>Total</b>	<b>1,710.8</b>	<b>1,565.8</b>

#### 18.4.1 Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long-term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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

Asset type	Change in year in net assets available to pay benefits		
	31/03/15 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
<b>Total change in assets available</b>	<b>1,710.8</b>	<b>17.1</b>	<b>(17.1)</b>

Asset type	Change in year in net assets available to pay benefits		
	31/03/14 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
<b>Total change in assets available</b>	<b>1,565.8</b>	<b>15.6</b>	<b>(15.6)</b>

#### 18.5 Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:



Currency exposure – asset type	31/03/15	31/03/14
	£m	£m
Overseas bonds (including index linked)	1,498.3	1,127.3
Overseas equities	2,513.8	2,466.3
Overseas alternatives	191.4	155.2
Overseas property	30.1	25.1
<b>Total overseas assets</b>	<b>4,233.6</b>	<b>3,773.9</b>

### 18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.2% (as measured by one standard deviation).

A 6.2% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (previous year = 6%).

A 6.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/15	+6.2%	-6.2%
	£m	£m	£m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
<b>Total change in assets available</b>	<b>4,233.6</b>	<b>4,496.1</b>	<b>3,971.0</b>

Currency exposure - asset type	Change in year in net assets available to pay benefits		
	31/03/14	+6.0%	-6.0%
	£m	£m	£m
Overseas bonds (including index linked)	1,127.3	1,194.9	1,059.7
Overseas equities	2,466.3	2,614.2	2,318.3
Overseas alternatives	155.2	164.5	145.9
Overseas property	25.1	26.6	23.6
<b>Total change in assets available</b>	<b>3,773.9</b>	<b>4,000.2</b>	<b>3,547.5</b>

### 18.6 Credit risk

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

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

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

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

Deposits are not made with banks and financial institutions 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 31<sup>st</sup> March 2015 was £60m (31 March 2014: £315.5m.) This was held with the following institutions:

Summary	Rating	31/03/15	31/03/14
Bank deposit accounts		£m	£m
Ulster bank	Baa3	0.0	5.0
Northern Trust	A2	30.8	248.0
Svenska Handelsbanken	Aa3	30.0	61.4
<b>Bank current accounts</b>			
Natwest account	Baa2	(0.8)	1.1
<b>Total</b>		<b>60.0</b>	<b>315.5</b>

### 18.7 Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2015 are due within the one year.

## 19. Additional voluntary contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2014 to 31 March 2015 for Prudential and 1 September 2013 to 31 August 2014 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.1	19.8	20.9
Income (incl. contributions, bonuses, interest & transfers in)	0.0	5.4	5.4
Expenditure (incl. benefits, transfers out & change in market value)	(0.1)	(4.1)	(4.2)
<b>Value at the end of the year</b>	<b>1.0</b>	<b>21.1</b>	<b>22.1</b>

## 20. Current assets

	31/03/15 £m	31/03/14 £m
Contributions due - employers	14.4	14.4
Contributions due - members	4.6	4.4
Debtors - bodies external to general government	9.1	9.5
	<u>28.1</u>	<u>28.3</u>

	31/03/15 £m	31/03/14 £m
<b>Analysis of debtors</b>		
Other local authorities	15.6	15.5
NHS bodies	0.0	0.1
Public corporations and trading funds	0.0	0.1
Other entities and individuals	12.5	12.6
	<u>28.1</u>	<u>28.3</u>

## 21. Current liabilities

	31/03/15 £m	31/03/14 £m
Unpaid benefits	0.1	0.6
Accrued expenses	10.8	11.1
	<u>10.9</u>	<u>11.7</u>

<b>Analysis of creditors</b>	<b>31/03/15</b>	<b>31/03/14</b>
	<b>£m</b>	<b>£m</b>
Other local authorities	4.2	4.0
Other entities and individuals	6.7	7.7
	<hr/>	<hr/>
	10.9	11.7
	<hr/>	<hr/>

## 22. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £529.7m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

Commitments to outstanding call payments due to certain credit strategies stood at £304.1m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £11.3m at 31st March 2015. These amounts are expected to be drawn down over the next 15 months based on valuation certificates.

The commitment on indirect property of £20.7m at 31st March 2015 relates to a property under construction held in an indirect fund. This amount is expected to be drawn down over the next 15 months based on valuation certificates for a scheduled completion in May 2016.

## 23. Related Party Transactions

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

- At 31 March 2015, Damon Lawrenson, CPFA, was Interim Director of Financial Resources to the Pension Fund and Lancashire County Council.
- The Pension Fund includes 136 scheduled and 184 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2014/15. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

### **23.1 Lancashire County Council**

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

The council incurred costs of £4.5m (2013/14: £4.2m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of the members of the Pension Fund and contributed £79.5m to the fund in 2014/15 (2013/14: £69.1m). All monies owing to and due from the Fund were paid in year.

### **23.2 Key management personnel**

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24.

This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

## **24. Funding arrangements**

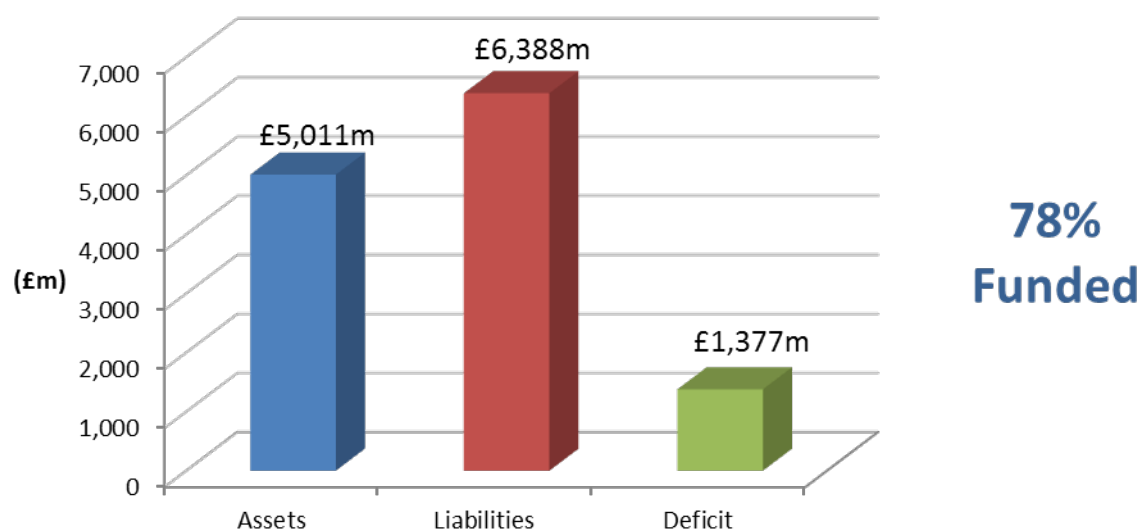
### **Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary**

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement.

[Your Pension Service - Lancashire Fund Information](#)

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

## 25. Actuarial present value of promised retirement benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). In addition, the expected long-term rate of CPI inflation fell during the year, resulting in a lower assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £6,917m. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by approximately £1,251m. Adding interest over the year increases the liabilities by



approximately £309m, and allowing for net benefits accrued/paid over the period (including allowance for the Probation transfer) decreases the liabilities by approximately £107m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £8,370m.

John Livesey  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
May 2015

## 26. Events after the net assets statement date

On 2<sup>nd</sup> July 2015 the Pension Fund Committee of Lancashire County Council and the Board of the London Pension Fund Authority each separately agreed to seek regulatory approvals for the creation of an Asset and Liability Management Partnership. This partnership, which is a response to the Government's reform agenda for the Local Government Pension Scheme, has the potential to fundamentally change the way in which the two Funds are managed and achieve significant reductions in the cost of running the Funds.

The Partnership will oversee the creation of a pool of investment assets (made up of the assets of the two funds) which will be jointly invested, as well as a pension services organisation which will carry out both investment management and pension administration functions. Both the asset pool and the investment management activities will be regulated by the Financial Conduct Authority.

The Pension Fund Committee of Lancashire County Council and the Board of the LPFA will each make a final decision on the Partnership based on a full business plan at simultaneous meetings during November 2015.



## Glossary

### **Accounting policies**

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

### **Accrual**

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

### **Accumulated Absences Account**

The accumulated absences account absorbs the differences that would otherwise arise on the County Fund balance from accruing for compensated absences earned but not taken in the year,

### **Actuary**

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

### **Actuarial gains and losses**

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

### **Administrative expenses (IAS 19)**

The administration costs of running the pension fund

### **Agency services**

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

### **Amortisation**

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

### **Appropriation**

A contribution to or from a financial reserve.

### **Audit qualification**

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

### **Budget**

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

### **Capital assets**

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

### **Capital creditors**

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

### **Capital expenditure**

Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads.

### **Capital funding**

Money to support spending on capital projects.

**Capital grant**

Money received for capital items (see 'capital expenditure' above).

**Capital Grants Unapplied Account**

A reserve holding capital grants and contributions which either never had conditions that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the Comprehensive Income and Expenditure Statement and transferred into Capital Grants Unapplied via the Movement in Reserves Statement (MiRS).

**Capital investment**

Money invested in capital projects.

**Capital projects**

Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

**Capital receipts**

Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

**Capital Receipts Reserve**

A usable reserve on the Balance Sheet holding recognised capital receipts. Capital receipts are credited to the Comprehensive Income and Expenditure Statement and then reversed through the Movement in Reserves Statement (MiRS) into the Capital Receipts Reserve. When used for financing, receipts are debited from this reserve into the capital adjustment account.

**Capital value**

Amount spent on capital.

**Capitalise**

To treat as capital expenditure rather than revenue expenditure.

**Cash equivalents**

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

**Cash transactions**

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

**Central items**

Central overheads e.g. payroll costs.

**CIPFA**

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

**Collection fund**

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

**Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure

Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the County Fund from the Collection Fund.

### **Construction contract**

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

### **Contingent liabilities**

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

### **Corporate governance**

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

### **County Fund**

The main revenue fund used to provide county council services. Income to the fund consists of the county precept on the collection funds, government grants and other income. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

### **Creditors**

Amounts owed by the county council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

### **Current assets and liabilities**

Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

### **Current service cost (IAS 19)**

The increase in the county council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

### **Curtailment cost (IAS 19)**

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

### **Debt redemption**

Where a debt is repaid early.

### **Debtors**

Amounts owed to the county council which had not been paid by the date of the balance sheet.

### **Deferred liabilities**

Debts to be settled sometime in the future, but the actual date is not certain.

### **Defined benefit scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciation**

Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

**Discretionary benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

**Devolved financial management (DFM)**

The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

**Direct service organisation (DSO)**

An organisation set up within the county council to carry out certain activities subject to competitive tendering.

**Employer's pension contributions**

Payments to the pension scheme made by the county council for current employees.

**Expected return on assets (IAS 19)**

The average rate of return expected on investment assets held by the pension scheme.

**Fair value**

The amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Finance lease**

A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

**Financial Instruments Adjustment Account**

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

**Financial year**

The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

**Financing charges**

Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

**Financial instrument**

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

**Fixed assets**

Assets intended to be used for several years – for example, buildings, machinery and vehicles.

**Global custodian**

A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

**Government grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

**Historic cost**

The cost of an asset at the time it was bought.

**Impairment**

Where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

**Infrastructure assets**

Highways fixed assets – for example, roads and bridges.

**Intangible assets**

Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

**Interest cost (pensions)**

The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

**Investing activities**

The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

**Investment property**

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

**Market value**

The monetary value of an asset as determined by current market conditions at the balance sheet date.

**Materiality**

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

**Minimum revenue provision**

The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

**National non-domestic rate (NDR)**

The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more than the retail price index. Rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

**Net book value**

The amount at which fixed assets are included in the balance sheet (i.e. their historical cost or current value less the cumulative amounts provided for depreciation).

**Net nil trading position**

This is where spending matches income.

**Net pension liability**

The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

**Net realisable value**

The amount for which an asset can be sold, less the cost of selling it.

**Nil consideration**

Where no charge is made for an item.

**Nominal value of a financial instrument**

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

**Non-distributed costs**

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

**Non-operational assets**

Assets which are not in use.

**Operating lease**

A lease where ownership of the goods remains with the company leasing them.

**Operational assets**

Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

**Past service cost or gain (IAS 19)**

The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to regulations.

**Pension enhancements**

Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

**Pooled investment vehicle**

Where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

**Precept**

A charge made by one authority which is collected by another authority – for example, the council tax precept.

**Principal**

The amount of money borrowed, not including interest charges.

**Principal repayment of debt**

Re-payment of a loan, not including interest charges.

**Prior period adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### **Private Finance Initiative (PFI)**

A means of securing new assets and associated services in partnership with the private sector.

### **Projected unit method (Pensions)**

An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) The accrued benefits for members in service on the valuation date (accrued benefits are the benefits for service up to a given point in time, whether vested rights or not).

### **Provisions**

Liabilities of uncertain timing or amount.

### **Public Works Loan Board (PWLB)**

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

### **Realisable value**

The amount for which an asset can be sold.

### **Reconciliation**

The process of checking figures from different sources which should logically match up – for example, matching invoices paid against amounts banked.

### **REFCUS (Revenue Expenditure Funded from Capital Under Statute)**

Capital expenditure which does not create or add to the value of an item of property, plant or equipment belonging to Lancashire County Council.

### **Related party**

A person or organisation which has influence over another person or organisation.

### **Re-measurements – Assets (IAS 19)**

The return on assets net of administration expenses and interest on income.

### **Re-measurements – Liabilities (IAS 19)**

Re-measurement on liabilities that are subdivided into 'Experience gains (losses) on liabilities, gain (loss) on financial assumptions and gain (loss) on demographic assumption.

### **Reserves**

Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

### **Residual value**

The amount an asset can be sold for, less the cost of selling it.

**Revenue account**

An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

**Revenue expenditure**

The county council's day-to-day spending. This consists mainly of salaries and wages, running costs and financing charges.

**Revenue Support Grant**

A general grant from central government to contribute towards the cost of providing services.

**Reversed out**

This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

**Specific grants**

Government grants for a particular service – for example, the Standards Fund Grant.

**Tangible assets**

Assets which have a physical form – for example, buildings, furniture and equipment.

**Transfers in/out**

Transfers of money either into or out of the pension fund, from another pension fund.

**Transfer value**

A payment made by one pension fund to another when a scheme member changes schemes.

**Useful life**

The period which an asset is expected to be available for use.

**Write down**

This is where amounts are charged to the revenue account or offset against another balance sheet account.