Statement of Accounts 2016/17

Lancashire County Council

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FOREWORD BY THE DIRECTOR OF FINANCIAL RESOURCES

Neil Kissock CPFA
Director of Financial Resources

I am pleased to introduce the Statement of Accounts for the 2016/17 financial year. The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating Lancashire County Developments Limited.

Lancashire County Council also administers the Lancashire County Pension Fund. On 8 April 2016 Lancashire County Council entered into a joint venture with the London Pensions Fund Authority forming the Local Pensions Partnership (LPP) for the pooling of the executive functions of the two organisations together with the investment assets of the two funds. The pension fund accounts are included within the supplementary accounts section of the Statement of Accounts.

The accounts include a wealth of information around the finances of the Council including a narrative highlighting the most significant matters reported in the Statement of Accounts. There is also information on our achievements during the year and a commentary on the outlook for the future.

I hope you find this report and the Statement of Accounts useful in understanding the Council's financial position and performance for the year. However, if you would like to receive further information about these accounts then please do not hesitate to get in touch.

Finally, the production of the Statement of Accounts would not have been possible without the hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from the finance team and other services, who have assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

Neil Kissock

Neil Kissock
Director of Financial Resources

BACKGROUND

The county of Lancashire

Lancashire has one of the largest local economies in the North of England and is a large and multi-faceted area with a diverse geography. The county boasts a rich industrial tradition, set within a network of densely populated urban centres which are themselves surrounded by outstanding countryside and coastal fringes.

The county of Lancashire lies in the north west of England. The county borders Cumbria to the north, Greater Manchester and Merseyside to the south and North and West Yorkshire to the east; with a coastline on the Irish Sea to the west.

Lancashire's leading national and regional position in relation to aerospace, advanced engineering and manufacturing, together with its strengths in energy and higher education, make it a pivotal part of the long term sustainability of the North's economy, as does its internationally recognised visitor offer.

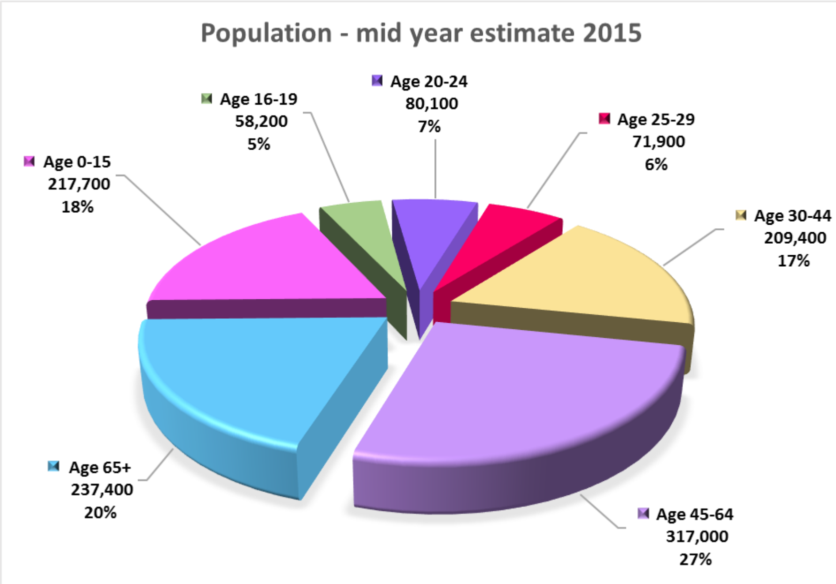
Lancashire County Council provides services to residents of the 12 district areas of Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre and covers an area of 2,903km^{2}.

Demographic profile of Lancashire

The profile of the population is an important determinant of the demand for services provided by the Council, such as, the demand for adults and children's social care.

The mid-year population estimate for Lancashire in 2015 indicated that there were 1,191,700 people living in the county. The population is projected to increase to 1.25 million by 2039[1].

The make-up of the population is shown below.



Source: Office for National Statistics – population mid-year estimate 2015

Analysis by age reveals that most of the age groups between 0 and 64 years are predicted to decrease in the years to 2037. A substantial increase is predicted in the over 65 age group and in the number of people aged 90 years and older[1].

The largest ethnic group is white (92%). The black and minority ethnic group (BME) makes up 8% of the population, the majority of this group being Asian/Asian British[2].

1 ONS 2014-based Subnational population projections
2 2011 Census

Lancashire County Council

Lancashire County Council is part of a 'two tier' system of local government, working closely with the district councils. It exists to serve everyone who lives or works in Lancashire, helping people to be healthy, happy and enjoy a good quality of life. We are also here to protect the most vulnerable members of our communities who need some extra support. Some of our services are very visible to everyone in the county but there are many others you may only know about when you need them.

If you need our help

We provide care services to older people; we help people with disabilities to be active, learn and be independent; and we find adoptive parents and foster carers for children in our care.

To help you achieve your ambitions

We work with others to attract employers to the county and create new jobs; we can help you learn new skills; and we offer a range of advice and support to people starting up their own business.

To help you look after your health

We arrange a number of services to help you improve your health and work with the NHS to make sure you get a good service when you are not well; we also help deal with and prevent difficult situations like outbreaks of infectious diseases.

When you need to keep moving

We invest in public and sustainable transport, build and maintain roads and bridges, and service public rights of way.

At important times in your life

We register births and deaths, play a part in marriages and welcome new residents through British citizenship ceremonies.

When you want to learn, develop and enjoy

We support libraries, museums and heritage sites, maintain countryside parks and work with schools to help children achieve their potential.

When you need to feel safe

We work with drivers, residents and schools to reduce accidents on our roads, and with the police and other agencies to help people feel safer both outdoors and at home.

Political structure

There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities and bring their views into the Council's decision making process.

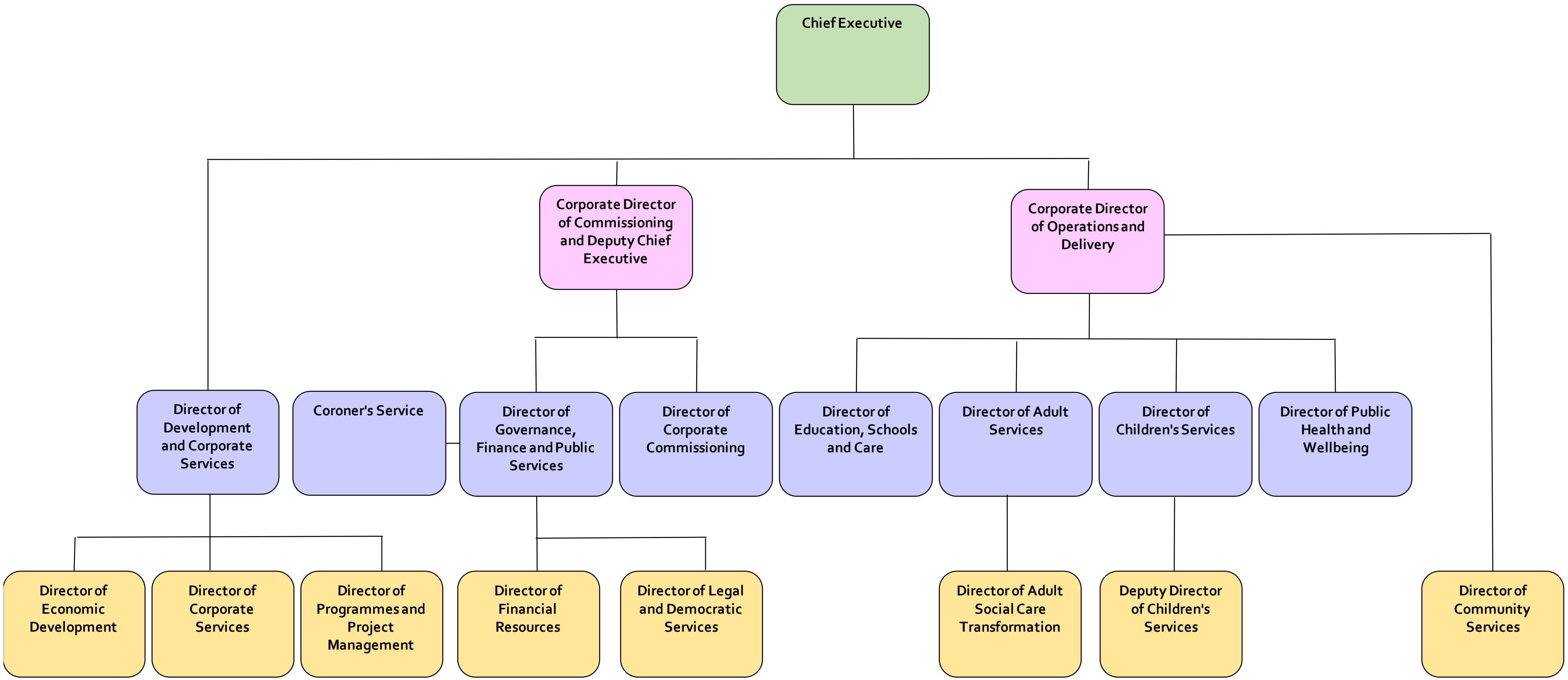
Council meetings are broadcast live on our website as part of our policy of bringing decision-making closer to the public.

The political structure of the Council in the 2016/17 financial year was as follows, with Labour forming a minority administration:

Party	No.
Labour	39
Conservative	35
Liberal Democrat	6
Independent	3
Green Party	1
Total	**84**

Management structure

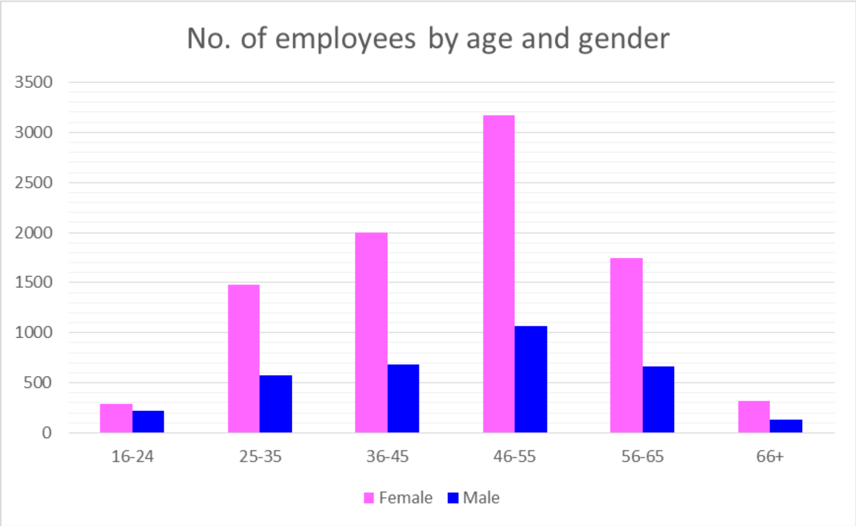
The Council has responsibilities spanning public health, social care, the economy and the environment. The management structure of the Council is shown below.



Our staff

Our staff are the most important resource we have in achieving our goals. The Council has employed over 12,000 people in full time and part time contracts (excluding school employees).

A breakdown by age and gender is shown below.



PERFORMANCE IN 2016/17

Despite the financial challenges faced by the Council and the public sector as a whole, the Council has continued to deliver services to the people of Lancashire.

Achievements in the year have included:

2,573 FULL TIME NURSERY PLACES

474 PRIMARY SCHOOLS WITH 93,316 PUPILS

61 SECONDARY SCHOOLS

45,267 11-19 YEAR OLD PUPILS

2,584 PLACES IN 28 SPECIAL DAY SCHOOLS

113 PLACES IN 2 RESIDENTIAL SPECIAL SCHOOLS

1,864 CHILDREN LOOKED AFTER

9,907 REFERRALS TO CHILDREN'S SOCIAL CARE

14,456 CHILDREN'S SOCIAL CARE ASSESSMENTS

1,394 CHILDREN WITH CHILD PROTECTION PLANS

7,032KM ROADS MAINTAINED

354,041 TONNES WASTE MANAGED

148,387 STREETLIGHTS OPERATED

1,848 BRIDGES MAINTAINED

12,753
HOME CARE PACKAGES

5,086 **PEOPLE SUPPORTED IN LONG TERM RESIDENTIAL OR NURSING CARE**

47,107 ELIGIBLE PEOPLE HAD HEALTH CHECKS COMPLETED

8,417 RESPONSES TO ENQUIRIES ON WELFARE RIGHTS MATTERS

FINANCIAL PERFORMANCE

Revenue expenditure

The Council has faced an unprecedented period of financial challenge since the Government's austerity measures began in 2010, with year on year reductions in the funding provided by Central Government to the Council. This has primarily been through revenue support grant which has dropped from £302.103 million in 2010/11 to £118.841 million in 2016/17. In addition, the Council continues to face significant financial pressures from rising costs of the national living wage and contractual inflation and also in relation to increasing demand for its services. This is particularly the case for both adult and children's social care services and waste services.

On 11 February 2016, the Council approved a net revenue budget of £713.020 million, which included savings of £20.252 million identified in February 2015 and a further £64.686 million of savings approved in November 2015. The revenue budget represents the cost of meeting the annual expenses of carrying out the Council's duties and responsibilities to the community, many of which are of a statutory nature.

The approved budget is outlined below together with the actual spend position for the year.

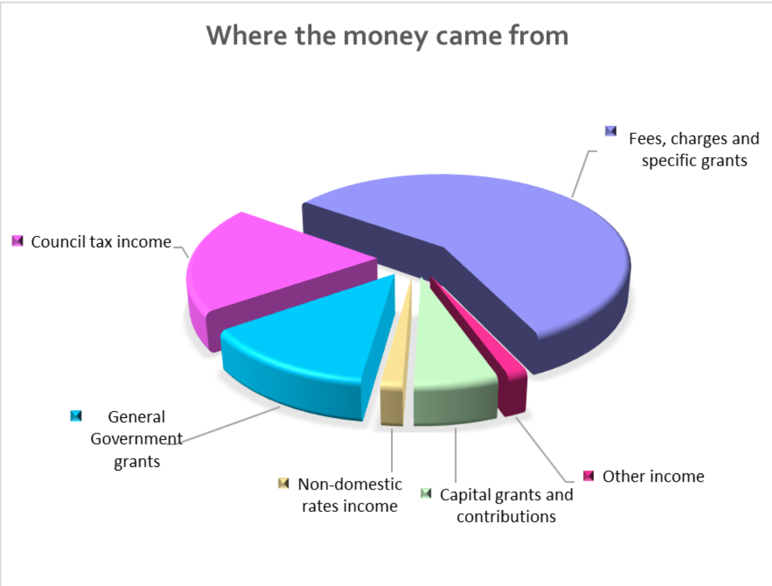
Service	Original budget	Revised budget	Actual	Variation
	£m	£m	£m	£m
Adult social care	317.410	317.674	322.015	4.341
Children's services	119.356	119.421	132.428	13.007
Community services	134.610	134.239	133.588	(0.651)
Public health and wellbeing	28.662	28.860	24.661	(4.199)
Development and corporate services	40.147	35.574	34.261	(1.313)
Commissioning	43.470	46.649	42.142	(4.507)
Chief executive	29.364	30.603	0.824	(29.779)
Sub total	**713.020**	**713.020**	**689.919**	**(23.101)**
Schools	0	0	6.929	6.929
Total	**713.020**	**713.020**	**696.848**	**(16.172)**

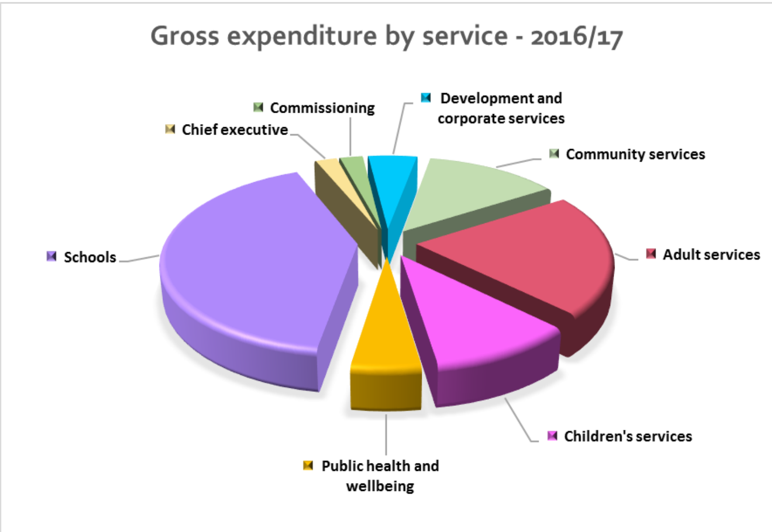
The final position (excluding schools) was a total net expenditure of £689.919 million, reflecting an underspending of £23.101 million when compared to the budget.

The underspend was largely due to the delivery of the vast majority of the agreed in-year savings programme, support from reserves and additional income of c£23 million arising from treasury management activities. This additional income reflected opportunities arising following the decision for the UK to leave the European Union. However, without the use of reserves and treasury management activity the Council would have overspent significantly above the approved budget reflecting a number of service pressures, particularly in children's and adult social care.

The final schools outturn position reflected an overspend of £6.929 million against the budget. This is mainly due to increasing costs of inflation and staffing whilst the school grant funding continues to remain static.

The following charts show where the Council's money came from and how it was spent on services.





Capital investment programme

In February 2017, the Council approved a four year capital programme of £247.3 million. This investment will deliver a range of benefits to the residents of Lancashire including:

- £31 million - schools' basic need programme to meet demand for pupil places;
- £20 million - property portfolio rationalisation suitability investment programme to enable the Council to deliver a range of diverse services from fewer premises;
- £40 million - highways maintenance (Department for Transport allocation - 2017/18 and 2018/19 only).

The final capital programme budget for 2016/17 was £156.1 million. Actual expenditure for the year was £144.7 million, c93% of budgeted spend.

Expenditure	**2016/17 outturn**	**2017/18**	**2018/19**	**2019-2021**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Schools (excluding DFC)	30.016	29.686	28.562	2.580	60.828
Schools devolved formula capital	2.818	2.634	2.634	0.000	5.268
Children and young people	0.256	3.014	4.560	3.586	11.160
Waste and other services	3.032	2.023	0.100	1.665	3.788
Adult social care	11.808	0.562	7.808	6.061	14.431
Corporate	12.460	12.276	13.661	11.349	37.286
Vehicle replacement	1.558	3.930	3.460	0.000	7.390
Transport	38.282	26.082	14.641	0.840	41.563
Highways	44.423	45.977	19.567	0.000	65.544
Total expenditure	**144.653**	**126.184**	**94.993**	**26.081**	**247.258**

The significant areas of spend in the capital programme for 2016/17 and the major schemes completed this year are as follows:

Highways

Centenary Way Viaduct (Burnley) - £1.9 million

Refurbished and waterproofed to improve and maintain traffic flow.

Highway maintenance schemes - £29 million

Of this £29 million, £4.8 million was spent on defect repairs, of which 97% of reported and actionable defects were fixed within the target date of 20 working days.

Transport

Heysham to M6 link road (Bay Gateway) - £22 million

The Bay Gateway was opened to the public in October 2016. The road, which has been under construction since early 2014, is the biggest new road to be built in Lancashire for decades. It is expected to bring huge economic and transport benefits to the county.

Burnley Pendle growth corridor - £4 million

This multi-year programme will enhance road junctions along the M65 corridor to improve access and transport links around a number of key employment sites.

Schools

£30 million

The completion of a new building for Weeton primary school at Weeton Barracks.

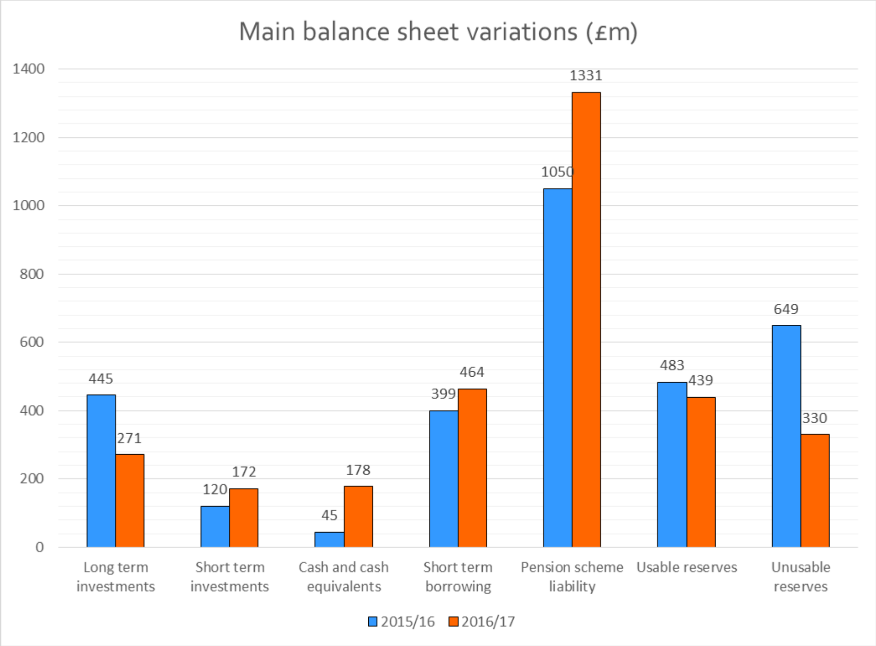
The completion of significant projects to expand primary schools at:

- Morecambe Road, Lancaster;
- Lever House, Farington;
- Grange Avenue, Preston

Balance sheet

The net assets of the Council have decreased by c£363 million from £1.132 billion at 31 March 2016 to £768.9 million at 31 March 2017.

The main balance sheet variations are shown in the chart below.



The balance sheet shows a decrease in long term investments of £174 million as a result of core bond sales which took advantage of the favourable market conditions. Some of these proceeds were re-invested in the short term in order to achieve higher yields.

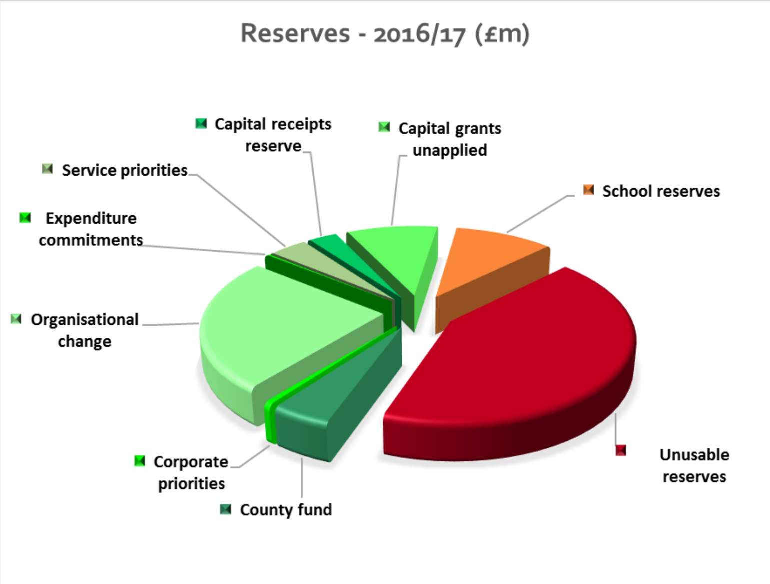
The cash and cash equivalents increased by £133 million mainly as a result of the investment sales.

The increase in short term borrowing of £65 million is largely due to the increased capital borrowing requirements.

The pension scheme liability rose by £281 million with a corresponding reduction in the pensions reserve (unusable reserves) as a result of the latest actuarial valuation supplied by Mercers Consultants Limited.

The usable reserves of the Council reduced by £44 million which is mainly due to the utilisation of earmarked reserves primarily in support of the revenue budget.

The reserves of the Council are shown in the following chart. Unusable reserves are shown in red and the usable reserves are shown in green. Reserves belonging to schools are shown in orange.



Property strategy

A key element in the delivery of the Council's services is the property portfolio from which Lancashire's residents can access those services and from which the Council's employees can deliver outreach services into the community. It is important, therefore, that the property portfolio is reconfigured to align it with the services that the Council will be providing in the future.

A review of the current property portfolio was carried out, on the basis of the property strategy approved by Cabinet in November 2015. The proposals were designed to provide a flexible response to the future patterns of service delivery through a network of multi-functional neighbourhood centres.

During public consultation on the property strategy the Council agreed to explore proposals by community groups and other organisations to take on responsibility for running some of the affected buildings and services. On 8 December 2016, the deputy leader of the Council made a number of decisions about proposals from community organisations to take on ownership of buildings which the Council no longer needed. The cabinet member for environment, planning and cultural services also agreed on 8 December 2016 proposals for support to establish independent community-run libraries, which will complement the statutory service which the Council provides.

Treasury management overview

The Council agrees an annual Treasury Management Strategy before the start of each year.

In setting the strategy for 2016/17 the key objectives were:

- to ensure the security of the principal sums invested which represent the Council's various reserves and balances;
- to ensure that the Council has access to cash resources as and when required;
- to minimise the cost of the borrowing required to finance the Council's capital investment programme, and manage interest and inflation rate risks appropriately;
- to maximise investment returns commensurate with the Council's policy of minimising risks to the security of capital and its liquidity position.

The strategy was implemented in a time when the economic situation has been very uncertain with political events, principally the UK voting to leave the European Union and the USA Presidential election, having a significant impact on the volatility of the markets. In addition, 2016 saw concerns over world economic growth with the slowdown of the Chinese economy.

The economic uncertainty is set to continue with the detailed negotiations to leave the European Union getting started, increased inflation and uncertain economic growth.

The Council held investments of £574.5 million at 31 March 2017. This is slightly lower than the £577.5 million held at 31 March 2016. In line with the Council's policy on investments, the Authority held investments with high credit ratings and a maturity profile in line with expectations of need. Interest receipts and the sale of investments generated income of some £33 million at an average yield of 4.6%.

The total loan debt administered by the Council at 31 March 2017 was £1,041.7 million which is an increase of £66.3 million in the year. The Council has continued with its strategy of taking debt on a short term basis. This has resulted in the average interest paid being 2.12%.

Pension fund liability

The Council accounts for its pension fund liabilities in accordance with International Accounting Standard 19 – Employee Benefits (IAS 19), which means that it accounts for the costs of retirement benefits when entitlement to those benefits has been earned, rather than when they are actually paid to employees, which may be many years into the future.

These future liabilities are to be met by fund assets which are acquired from employer and employee contributions and subsequently invested for a return. As at 31 March 2017, fund liabilities exceeded fund assets by £690 million, representing a funding level of 90%. This gap has to be made good over time from a combination of improved investment performance, increases in employee and employer contributions and / or changes to scheme benefits. A triennial actuarial review assesses key assumptions and agrees any changes, including any increase in employer contributions, for a subsequent three year period with the aim of having a 100% funded scheme over the longer term. The latest review applies to the period 1 April 2017 to 31 March 2020.

Managing risk

A corporate risk and opportunities register is in place to identify and manage the risks that could impact on the delivery of the Council's objectives. The register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit and Governance Committee. Some of the most significant of these risks are highlighted below:

Risk description	Possible consequences	Mitigating actions
Risk to the ongoing long term financial viability of the Council as a result of inability to achieve identified savings and further reductions in funding.	The Council may not be able to meet its statutory obligations by 2018/19.	Zero based budget review. Collaborative working with partners / other local authorities / NHS.
Failure to adequately protect and safeguard children.	Children are put at risk of harm.	Implementing improvement plan post inspection. Lessons learnt from peer challenge. Review of all children in need cases using internal and external capacity.
Social care – demographic pressures and increasing costs	Demand and expectations continue to rise against a backdrop of reduced resources.	Alternative delivery options being explored. In relation to adult and children's social care, engaging external capacity in this area of work

OUTLOOK FOR THE FUTURE

Like many parts of the public sector, councils are under acute financial pressure and further austerity measures are expected for the foreseeable future. Alongside reductions in the level of financial resources, we are experiencing increased demand for many services. This is especially the case for the services that the Council has a statutory obligation to provide, in particular those delivering social care to both older people and children. At this point the impact of the decision for the UK to leave the European Union on the Council's finances is uncertain but could include changes in interest and inflation rates, impact on property values and potentially the end of European grant funding.

The challenge facing the Council is unprecedented. The 2017/18 budget includes around £51 million of savings relating to 2017/18, some of which will not be fully delivered until 2018/19 and it was agreed that these would be covered by the use of reserves. On the current trajectory, these reserves will be exhausted by 2018/19 if further savings are not identified.

A review of statutory services was undertaken by PricewaterhouseCoopers LLP (PwC) and presented to Cabinet in October 2016. It reported that the Council is forecasting a cumulative deficit of £398 million by the end of 2020/21. It also found that even if the Council was to reduce its expenditure to the level of lowest quartile cost for all services, within the term of this financial planning period it would still be facing an in-year deficit of £79 million and a cumulative deficit of £227 million by 2020/21.

One of the considerations raised within the report was whether the current funding model of the Council is disproportionately contributing to the funding gap. The Council has continued to lobby Central Government and relevant stakeholders regarding the extreme challenges being faced as a result of the local government finance system.

Delivering this level of saving whilst seeking to deliver effective services for our communities cannot be achieved without a radically different approach which focuses on service delivery within a reducing budget envelope. Integrating public service delivery across public sector organisations may provide an opportunity to move closer to a sustainable financial position, to improve the outcomes for citizens and to enable Lancashire as a county to achieve its aspirations for growth and prosperity into the future. The integration agenda is advocated strongly with regard to helping address the pressures across health and adult social care particularly. What is fundamentally clear is that doing nothing will only worsen the situation and leave the citizens of Lancashire facing an uncertain and highly vulnerable future.

There is no single vision as to what public services will look like in 2021 but we cannot solve the challenges we face alone and must work with the Government and partners towards new solutions for public services. In this respect we see this as a time of possibility for the Council, its partners and communities. Devolution and de-centralisation have the potential to unlock the fundamental reconfiguration of services such as health and care systems. There is also a new opportunity to develop one voice for Lancashire and a shared understanding with partner organisations.

The Council will continue to endeavour to meet the immediate needs of the communities it serves whilst shaping the Council into an organisation that is sustainable and able to deliver successfully against its goals in securing the best outcomes for the citizens of Lancashire.

EXPLANATION OF THE ACCOUNTING STATEMENTS

The Statement of Accounts has a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. It provides information on:

- the cost of the Council's services for the year;
- how the services were funded;
- the Council's assets and liabilities at the year end.

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework.

The comprehensive income and expenditure statement shows the cost of providing services in line with International Financial Reporting Standards, however, the amounts chargeable to council tax are limited by statutory requirements and require certain accounting entries to be adjusted.

The format of the Statement of Accounts has been revised following the outcome of the 'Telling the story' review. This includes streamlined reporting requirements for the movement in reserves statement and the introduction of the expenditure and funding analysis and expenditure and income analysed by nature note.

The expenditure and funding analysis reconciles the financial position reported on the basis of proper accounting practices with the amounts charged to the financial statements under statute. Further detail on the statutory adjustments is also provided in the movement in reserves statement and note 14 - adjustments between accounting basis and funding basis under regulations.

The accounts consist of the following four core financial statements supported by explanatory notes.

Comprehensive income and expenditure statement

From 2016/17 local authorities are no longer required to report based on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP) but to report on the same basis as the Council's budget and performance monitoring reports. This new format means that the service section of the comprehensive income and expenditure statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

The comprehensive income and expenditure statement reflects the cost of providing the Council's services in accordance with generally accepted accounting practices. It also includes details of the gains or losses in the measurement of the assets and liabilities of the Council which arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pension assets and liabilities.

Movement in reserves statement

This statement shows the impact of the financial year on the Council's reserves. It also includes details of the income and expenditure that is recognised under accounting rules but then removed from the accounts by legislation to give the amount of expenditure that has been funded by the local tax payer.

Reserves are analysed into usable reserves which can be used to fund future expenditure and unusable reserves which arise as a result of accounting entries required by legislation, such as:

Reserve	Description
Revaluation reserve	The accumulated balance of changes in the value of non-current assets.
Capital adjustment account	The difference between depreciation and the charges made to the accounts under capital accounting rules.
Pensions reserve	The difference between the amount charged for pension under accounting rules and the actual payments made to statutory pension schemes for the year.

Balance sheet

The balance sheet summarises the Council's financial position at the year end and reports the assets, liabilities and reserves of the Council.

Cash flow statement

The cash flow statement shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Notes to the financial statements

The notes to the accounts provide further detail on material items within the core financial statements.

SUPPLEMENTARY STATEMENTS

Group accounts

The group accounts show the full extent of the Council's economic activities by reflecting the Council's involvement with its group companies.

Pension fund accounts

The pension fund accounts provide a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year.

Annual governance statement

The annual governance statement sets out the governance structures of the Council and its key internal controls.

Statement of responsibilities

This statement defines the responsibilities of the Council and the Chief Financial Officer in respect of the Council's financial affairs.

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs under Section 151 of the Local Government Act 1972. In this Council, that officer is the Director of Financial Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2017.

N Kissock

N Kissock
Director of Financial Resources
31 July 2017

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit and Governance Committee on 31 July 2017.

A Schofield

A Schofield
Chair of Audit and Governance Committee
31 July 2017

Core Financial Statements

Comprehensive income and expenditure statement

Restated 2015/16				2016/17		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
909.8	(900.3)	9.5	Schools	919.1	(908.2)	10.9
52.5	(0.8)	51.7	Chief executive	46.8	(7.1)	39.7
50.9	(23.7)	27.2	Commissioning	50.0	(29.1)	20.9
135.4	(43.6)	91.8	Development and corporate services	106.6	(38.1)	68.5
4.2	(6.1)	(1.9)	Lancashire pension fund	0	0	0
218.6	(45.2)	173.4	Community services	290.8	(41.4)	249.4
444.0	(130.1)	313.9	Adult services	478.9	(124.1)	354.8
249.5	(14.5)	235.0	Children's services	227.8	(11.6)	216.2
107.0	(75.5)	31.5	Public health and wellbeing	108.8	(84.6)	24.2
2,171.9	**(1,239.8)**	**932.1**	**Cost of services**	**2,228.8**	**(1,244.2)**	**984.6**
5.8	(18.4)	(12.6)	Other operating income and expenditure (Note 6)	12.8	(5.3)	7.5
73.4	(30.1)	43.3	Financing and investment income and expenditure (Note 7)	69.7	(30.4)	39.3
0	(922.9)	(922.9)	Taxation and non-specific grant income (Note 8)	0	(870.7)	(870.7)
2,251.1	**(2,211.2)**	**39.9**	**(Surplus)/deficit on provision of services**	**2,311.3**	**(2,150.6)**	**160.7**
		(63.3)	(Surplus)/deficit on revaluation of non-current assets (Note 29)			(39.7)
		(228.7)	Re-measurement of the net defined benefit pension liability/(asset) (Note 29)			243.2
		2.2	(Surplus)/deficit on revaluation of available for sale assets (Note 29)			(1.1)
		(289.8)	**Other comprehensive income and expenditure**			**202.4**
		(249.9)	**Total comprehensive income and expenditure**			**363.1**

Changes to the 2016/17 Code of Practice require the Council to report the cost of services in the same format as the internal budget and performance monitoring reports, whereas, previously costs were analysed in accordance with the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP). This has required a restatement of the 2015/16 figures (see Note 4).

2016/17

	County fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**
Movement in reserves during 2016/17						
Total comprehensive income and expenditure	160.7	0	0	160.7	202.4	363.1
Adjustment between accounting basis and funding basis under regulations (Note 14)	(103.2)	(5.1)	(8.6)	(116.9)	116.9	0
(Increase)/decrease in year	**57.5**	**(5.1)**	**(8.6)**	**43.8**	**319.3**	**363.1**
Balance at 31 March 2017	**(343.2)**	**(22.8)**	**(73.2)**	**(439.2)**	**(329.7)**	**(768.9)**

2015/16

	County fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2015	**(424.7)**	*** (33.0)**	*** (40.1)**	**(497.8)**	**(384.3)**	**(882.1)**
Movement in reserves during 2015/16						
Total comprehensive income and expenditure	39.9	0	0	39.9	(289.8)	(249.9)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(15.9)	15.3	(24.5)	(25.1)	25.1	**0**
(Increase)/decrease in year	**24.0**	**15.3**	**(24.5)**	**14.8**	**(264.7)**	**(249.9)**
Balance at 31 March 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**

* 2015/16 restated

The new reporting format for the movement in reserves statement requires the restatement of the 2015/16 figures.

The Council uses the term County Fund to represent the General Fund.

31 March 2016		Note	31 March 2017
£m			£m
2,681.7	Property, plant and equipment	18	2,662.3
28.7	Heritage assets	20	28.7
4.4	Investment properties		2.0
24.6	Intangible assets		21.7
445.0	Long term investments	26	271.3
68.9	Long term debtors	21	66.2
3,253.3	**Long term assets**		**3,052.2**
119.7	Short term investments	26	171.9
2.7	Inventories		3.5
109.2	Short term debtors	22	115.1
12.8	Payments in advance		8.6
44.7	Cash and cash equivalents	23	177.6
11.3	Assets held for sale		14.5
300.4	**Current assets**		**491.2**
(399.2)	Short term borrowing	26	(463.8)
(179.5)	Short term creditors	24	(195.9)
(10.6)	Receipts in advance		(8.2)
(12.2)	Short term provisions	25	(7.0)
(4.6)	Other current liabilities	26	(5.1)
(606.1)	**Current liabilities**		**(680.0)**
(19.0)	Long term provisions	25	(21.6)
(583.4)	Long term borrowing	26	(584.4)
(1,213.2)	Other long term liabilities	26, 29	(1,488.5)
(1,815.6)	**Long term liabilities**		**(2,094.5)**
1,132.0	**Net assets**		**768.9**
(483.0)	Usable reserves	29	(439.2)
(649.0)	Unusable reserves	29	(329.7)
(1,132.0)	**Total reserves**		**(768.9)**

2015/16		Note	2016/17
£m			£m
(39.9)	Net surplus/(deficit) on the provision of services		(160.7)
222.1	Adjustments to net surplus/deficit on the provision of services for non-cash movements	30	265.1
(204.5)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	30	(165.6)
(22.3)	**Net cash flows from operating activities**		**(61.2)**
(2.1)	Investing activities	31	140.5
(61.2)	Financing activities	32	53.6
(85.6)	**Net increase/(decrease) in cash or cash equivalents**		**132.9**
130.3	Cash and cash equivalents at the beginning of the reporting period		44.7
44.7	**Cash and cash equivalents at the end of the reporting period**	23	**177.6**

Explanatory notes to the financial statements

General notes to the financial statements

Note 1 - Accounting standards issued, but not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2017 but not yet adopted by the Code.

The 2017/18 Code will also introduce the following amendments in respect of pension fund accounts:

- Amendments to the reporting of pension fund scheme transaction costs;

Currently a breakdown of pension fund administrative expenses is not required, however, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This guidance recommends that funds should disclose by way of a note to the accounts, a breakdown of management expenses across the following three categories as a minimum: investment management expenses, pension scheme administration costs and oversight and governance expenses. The first category, investment management expenses, will include transaction costs for all categories of investment other than directly held property. The Fund has adopted CIPFA guidance on management expenses since 2014/15 when the guidance was introduced. The 2017/18 Code is expected to mandate the current guidance and therefore no material change to the Fund accounts is expected.

- Amendment to the reporting of investment concentration.

The 2017/18 Code of Practice will also amend the reporting of investment asset concentration for pension funds and will require disclosure of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security. This is consistent with the approach taken in the Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015'. No material impact on the accounts of the Fund is expected.

Note 2 - Critical judgements in applying accounting policies

In applying the accounting policies the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

General notes to the financial statements

Funding

There continues to be a high degree of uncertainty around future levels of funding for local government. The Council's medium term financial strategy assesses the on-going pressures from reduced funding and increased demand for services, which are mitigated by further savings and use of reserves. The Council is of the view that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to dispose of assets at less than their current value.

Private finance initiative (PFI)

The Council is deemed to control the services provided under the private finance initiative (PFI) agreement for 14 schools 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 £109.9 million as at 31 March 2017 (£121.4 million as at 31 March 2016).

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.

Asset valuations

The Council's estates department are required to exercise judgement in determining the carrying value of land and buildings on the balance sheet. The valuations are undertaken by in-house qualified staff and follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of local market conditions and available data to assess whether there have been changes which would require a review of all asset values held at 31 March 2017. After consideration no requirement had arisen in 2016/17.

School assets

In assessing the most appropriate accounting treatment for balances and transactions in relation to schools, the Council has considered the circumstances of each of the categories of school, such as ownership, control and access to economic benefits and service potential. Further details are included in Note 19.

The property, plant and equipment balance includes properties valued at £1,394.2 million 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 the Council's 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 the Council benefits from using these properties in terms of delivery of service and the Council also meets the costs of service provision. The Council has considered *Appendix E 'Accounting for schools in local authorities in England and Wales' to the 2016/17 Code* 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.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either under ultimate control of, or in partnership with, other organisations. An assessment of all of the Council's interests has been carried out to determine whether a group relationship between the Council and other entities exists.

The Council's relationships with other entities can be found within the related parties note. (Note 33).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. The other companies have been excluded from the group accounts as they are not considered to be material.

The omission of these companies from the group accounts will not affect the ability of a user of the accounts to determine the financial position and performance of the 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, where the Council's liability is limited to £1. There is a very low level of involvement from group members in delivering the Council's statutory or significant core services.

Note 3 - 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 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 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The Council commissions a rolling programme of valuations, at least 20% of assets are valued each year. Valuations are undertaken by qualified valuers within the Council's estates section in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices to ensure that the value of the Council's assets are not materially misstated at the balance sheet date.	Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. A reduction in value of 10% in the Council's land and buildings would result in a loss of c£172 million. A change in the estimated valuations would result in an increase/ decrease to the revaluation reserve and / or charge to the comprehensive income and expenditure statement.

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. For property assets, the valuation, residual value and useful life are all estimates. Valuation has been considered in the note above. Residual values are assessed as part of the valuation process. Useful lives are estimated based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the residual value and useful life are estimates because the assets are held at cost.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by c£476,000 for every year that useful lives had to be reduced. For property assets, since useful lives are estimated by an expert based on professional guidance, the scope to use judgement and change assumptions is limited. Also, given that property assets have relatively long asset lives, the estimates are less sensitive to changes in assumptions. For non-property assets, the estimated short term nature of the useful lives means the risk of misstatement is unlikely to be material.

Item	Uncertainties	Consequence if actual results differ from assumptions
Fair value estimations	When the fair values of investment properties, surplus assets and assets held for sale cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using the following valuation techniques: • for Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; • for level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.	The fair values of investment properties, surplus assets and assets held for sale are measured using Level 2 inputs, namely using quoted prices for similar assets or liabilities in active markets at the balance sheet date. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. As most estimates are based on current market information material changes are, therefore, not expected. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets.

Item	Uncertainties	Consequence if actual results differ from assumptions
Impairment of debtors	At 31 March 2017 the Council had a debtors balance of £115.1 million. A review of significant debtor balances has been undertaken and a debtors impairment figure of £13.9 million has been set aside in the accounts. This impairment allowance is based on a regular assessment of aged debt information from the sundry debtors system.	Should economic factors mean the impairment allowance is insufficient then any excess debt that proves uncollectable will result in a charge to the comprehensive income and expenditure statement. This cost may ultimately fall to the General Fund or the collection fund adjustment account depending on the nature of the debt. Should an additional 5% of debts prove to be uncollectable (above the amount set aside) there would be a cost of £5.1 million to the Council.

Item	Uncertainties	Consequence if actual results differ from assumptions
Pensions liability	The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include 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. (See Technical Annex).	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 net pension liability by approximately £360 million; • a 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £183 million; • an increase of one year in assumed life expectancy would increase the net pension liability by approximately £82 million.

Note 4 – Prior period adjustments

The Council has restated its 2015/16 comprehensive income and expenditure statement following the change in requirements in the CIPFA Code of Practice on Local Authority Accounting 2016/17. The net cost of services was previously reported in accordance with the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP) but is now reported in the same format as the Council's internal budget and performance monitoring reports. The tables below show the analysis of costs based on the SeRCOP and departmental formats.

2015/16 - Service expenditure analysis SeRCOP

	Gross expenditure	Gross income	Net expenditure
	£m	£m	£m
Central services to the public	8.7	(3.8)	4.9
Children's and education services	1,226.7	(949.7)	277.0
Cultural and related services	24.5	(3.6)	20.9
Environmental and regulatory services	102.6	(12.9)	89.7
Highways and transport services	97.3	(26.3)	71.0
Adult social care	516.9	(173.0)	343.9
Planning services	35.6	(3.5)	32.1
Public health	62.4	(65.4)	(3.0)
Corporate and democratic core	5.4	0	5.4
Non distributed costs	133.7	(43.5)	90.2
Cost of services	**2,213.8**	**(1,281.7)**	**932.1**

2015/16 – Restated on departmental basis

	Gross expenditure	Gross income	Net expenditure
	£m	£m	£m
Schools	909.8	(900.3)	9.5
Chief executive	52.5	(0.8)	51.7
Commissioning	50.9	(23.7)	27.2
Development and corporate services	135.4	(43.6)	91.8
Lancashire pension fund	4.2	(6.1)	(1.9)
Community services	218.6	(45.2)	173.4
Adult services	444.0	(130.1)	313.9
Children's services	249.5	(14.5)	235.0
Public health and wellbeing	107.0	(75.5)	31.5
Cost of services	**2,171.9**	**(1,239.8)**	**932.1**

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the financial position reported to management on page 9 with the cost of providing services in line with International Financial Reporting Standards included in the comprehensive income and expenditure statement and the amounts chargeable to council tax under statute.

Expenditure and funding analysis - 2016/17

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the County Fund *	Net expenditure chargeable to the County Fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	6.9	0	6.9	4.0	10.9
Chief executive	0.8	26.0	26.8	12.9	39.7
Commissioning	42.1	(21.1)	21.0	(0.1)	20.9
Development and corporate services	34.3	3.3	37.6	30.9	68.5
Community services	133.6	21.2	154.8	94.6	249.4
Adult services	322.0	27.3	349.3	5.5	354.8
Children's services	132.4	4.6	137.0	79.2	216.2
Public health and wellbeing	24.7	(1.3)	23.4	0.8	24.2
Net cost of services	**696.8**	**60.0**	**756.8**	**227.8**	**984.6**
Other income and expenditure	(713.0)	13.7	(699.3)	(124.6)	(823.9)
(Surplus)/deficit	**(16.2)**	**73.7**	**57.5**	**103.2**	**160.7**
Opening County Fund balance at 1 April			**(400.7)**		
(Surplus)/deficit			57.5		
Closing County Fund balance at 31 March			**(343.2)**		

* Further details on the adjustments are shown in the following tables.

Expenditure and funding analysis - 2015/16

	As reported to management	Adjustments to arrive at the net amount chargeable to the County Fund *	Net expenditure chargeable to the County Fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	9.7	(1.0)	8.7	0.8	9.5
Chief executive	55.6	(14.0)	41.6	10.1	51.7
Commissioning	40.8	(13.9)	26.9	0.3	27.2
Development and corporate services	39.3	12.0	51.3	40.5	91.8
Lancashire pension fund	(1.9)	0	(1.9)	0	(1.9)
Community services	158.1	0.8	158.9	14.5	173.4
Adult services	307.4	3.0	310.4	3.5	313.9
Children's services	97.1	6.2	103.3	131.7	235.0
Public health and wellbeing	29.7	0.9	30.6	0.9	31.5
Net cost of services	**735.8**	**(6.0)**	**729.8**	**202.3**	**932.1**
Other income and expenditure	(726.7)	20.9	(705.8)	(186.4)	(892.2)
(Surplus)/deficit	**9.1**	**14.9**	**24.0**	**15.9**	**39.9**
Opening County Fund balance at 1 April			**(424.7)**		
(Surplus)/deficit			24.0		
Closing County Fund balance at 31 March			**(400.7)**		

* Further details on the adjustments are shown in the following tables.

Notes supporting the comprehensive income and expenditure statement

Adjustments to arrive at the net amount chargeable to the County Fund

These adjustments relate to items that are included within departmental budgets but excluded from the cost of services in the comprehensive income and expenditure statement e.g. reserve transactions, finance and investment income and expenditure and levies and are detailed in the following table.

2015/16				2016/17		
Adjustments relating to other income and expenditure	Adjustments relating to transfers to and from reserves	Total adjustments		Adjustments relating to other income and expenditure	Adjustments relating to transfers to and from reserves	Total adjustments
£m	£m	£m		£m	£m	£m
(1.3)	0.3	(1.0)	Schools	0.4	(0.4)	0
8.8	(22.8)	(14.0)	Chief executive	28.2	(2.2)	26.0
(13.9)	0	(13.9)	Commissioning	(16.1)	(5.0)	(21.1)
(0.8)	12.8	12.0	Development and corporate services	(0.4)	3.7	3.3
1.1	(0.3)	0.8	Community services	(0.6)	21.9	21.2
0	3.0	3.0	Adult services	0	27.3	27.3
6.5	(0.3)	6.2	Children's services	0	4.5	4.6
0	0.9	0.9	Public health and wellbeing	0	(1.3)	(1.3)
0.4	**(6.4)**	**(6.0)**	**Net cost of services**	**11.5**	**48.5**	**60.0**
(0.4)	21.3	20.9	Other income and expenditure	(11.5)	25.2	13.7
0	**14.9**	**14.9**	**(Surplus)/deficit**	**0**	**73.7**	**73.7**

Notes supporting the comprehensive income and expenditure statement

Notes to the expenditure and funding analysis

The adjustments between the funding and accounting basis shown above are analysed further in the following tables.

Adjustments for capital purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflected in this note.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for the pensions adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

Other differences

Other differences between amounts debited/credited to the comprehensive income and expenditure statement and amounts payable/receivable to be recognised under statute:

For Financing and investment income and expenditure - the other differences column recognises adjustments to the County Fund for the timing differences for premiums and discounts.

For services this represents the change in accrued employee benefits such as annual leave.

The charge under taxation and non-specific grant income represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

Adjustments between the funding and accounting basis - 2016/17

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	£m	£m	£m
Schools	0	0	4.0	4.0
Chief executive	0	13.1	(0.2)	12.9
Commissioning	0.2	0	(0.3)	(0.1)
Development and corporate services	33.2	(1.8)	(0.5)	30.9
Community services	94.7	0.1	(0.2)	94.6
Adult services	5.2	0.1	0.2	5.5
Children’s services	87.8	(8.4)	(0.2)	79.2
Public health and wellbeing	0	0.1	0.7	0.8
Net cost of services	**221.1**	**3.2**	**3.5**	**227.8**
Other income and expenditure from the expenditure and funding analysis	(150.0)	34.8	(9.4)	(124.6)
Difference between County Fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**71.1**	**38.0**	**(5.9)**	**103.2**

Adjustments between the funding and accounting basis - 2015/16

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	£m	£m	£m
Schools	0.0	0.0	0.8	0.8
Chief executive	6.4	3.6	0.1	10.1
Commissioning	0.2	0.2	(0.1)	0.3
Development and corporate services	41.7	(1.1)	(0.1)	40.5
Community services	12.5	2.1	(0.1)	14.5
Adult services	1.0	2.7	(0.2)	3.5
Children's services	138.0	(5.9)	(0.4)	131.7
Public health and wellbeing	0.0	0.9	0.0	0.9
Net cost of services	**199.8**	**2.5**	**0.0**	**202.3**
Other income and expenditure from the expenditure and funding analysis	(224.0)	37.9	(0.3)	(186.4)
Difference between County Fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(24.2)**	**40.4**	**(0.3)**	**15.9**

Notes supporting the comprehensive income and expenditure statement

Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:

2015/16 £m		2016/17 £m
769.4	Employee expenses (excluding voluntary aided schools)	783.2
219.1	Employee expenses for voluntary aided schools	225.7
1,013.6	Other service expenses	1,009.2
169.8	Depreciation, amortisation and impairment	210.6
35.4	Interest payments	35.0
1.1	Precepts and levies	1.1
38.0	Net pension interest costs	34.8
4.7	Gain or loss on disposal of non-current assets	11.7
2,251.1	**Total expenditure**	**2,311.3**
(261.3)	Fees, charges and other service income	(247.5)
(27.9)	Interest and investment income	(32.6)
(394.4)	Income from council tax precept	(420.9)
(33.4)	Income from business rates precept	(34.3)
(1,494.2)	Government grants and contributions	(1,415.3)
(2,211.2)	**Total income**	**(2,150.6)**
39.9	**(Surplus)/deficit on the provision of services**	**160.7**

Note 6 - Other operating income and expenditure

2015/16 £m		2016/17 £m
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(7.2)	Other operating income/expenditure	3.4
(6.5)	Net (gains)/losses on the disposal of non-current assets	3.0
(12.6)	**Total**	**7.5**

Note 7 - Financing and investment income and expenditure

2015/16 £m		2016/17 £m
19.1	Interest payable and other similar charges	18.9
16.3	Interest payable on PFI unitary payments	16.1
38.0	Net interest of the net defined benefit liability	34.8
(27.9)	Interest receivable and similar income	(32.6)
(2.2)	Changes in the fair value of investment properties	2.1
43.3	**Total**	**39.3**

Note 8 - Taxation and non-specific grant income

The Council credited the following to the comprehensive income and expenditure statement.

2015/16 £m		2016/17 £m
(317.9)	Non-ringfenced Government grants	(283.3)
(177.2)	Capital grants and contributions	(132.2)
(495.1)	**Total non-specific grant income**	**(415.5)**
(394.4)	Council tax income	(420.9)
(33.4)	Non-domestic rates income	(34.3)
(922.9)	**Total**	**(870.7)**

The non-ringfenced Government grants and capital grants are analysed further in the following tables.

Notes supporting the comprehensive income and expenditure statement

Non-ringfenced government grants

2015/16		2016/17
£m		£m
(158.9)	Revenue support grant	(120.0)
(138.9)	Top-up grant (business rates retention scheme)	(143.4)
(16.2)	Education services grant	(14.6)
(3.9)	Other	(5.3)
(317.9)	**Total**	**(283.3)**

Capital grants and contributions

2015/16		2016/17
£m		£m
(82.7)	Department for transport	(36.6)
(22.4)	Department of education	(31.6)
(4.3)	Other government grants	(7.6)
(39.4)	Department for communities and local government	(12.3)
(9.0)	Department of health	0.0
(0.3)	European union grants	0.0
(19.1)	Other grants	(44.1)
(177.2)	**Total**	**(132.2)**

Note 9 - Grant income and contributions credited to cost of services

In addition to the non-ringfenced grants, a number of service specific or ringfenced grants were credited to the cost of services as detailed below.

2015/16		2016/17
£m		£m
(762.8)	Dedicated schools grant	(770.2)
(46.2)	Pupil premium grant	(45.9)
(74.7)	Other Government grants	(62.3)
(21.9)	PFI grant	(21.9)
(64.6)	Public health grant	(71.9)
(3.8)	Other grants	(2.2)
(25.3)	Other contributions	(25.3)
(999.3)	**Total**	**(999.7)**

Note 10 - Dedicated schools grant

The Council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2015 which includes:

- central services - a restricted range of services provided by the Council across the county;
- the individual schools budget, which is divided into a budget share for each school.

The following table shows how the DSG was used for:

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2016/17 before academy recoupment			(861.0)
Academy figure recouped for 2016/17			90.8
Total DSG after academy recoupment for 2016/17			**(770.2)**
Brought forward from 2015/16			(20.2)
Agreed initial budgeted distribution for 2016/17	**(47.4)**	**(743.0)**	**(790.4)**
In-year adjustments	0	0.2	0.2
Final budget distribution for 2016/17	**(47.4)**	**(742.8)**	**(790.2)**
Actual central expenditure relating to DSG	30.6		30.6
Actual ISB deployed to schools		738.9	738.9
Carry forward to 2017/18	**(16.8)**	**(3.9)**	**(20.7)**

Note 11 - Officers' remuneration

The remuneration of senior employees, defined as members of the Executive Management Team or those holding statutory posts is set out below.

Officers' remuneration - 2016/17

Postholder	Note	Salary, fees and allowances	Benefits in kind (lease car payments / excess mileage)	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contribution
		£	£	£	£	£
Chief Executive - J Turton		171,745	5,300	177,045	21,640	198,685
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		127,890	9,217	137,107	16,114	153,221
Corporate Director Operations and Delivery		130,493	4,482	134,975	16,442	151,417
Director Public Health and Wellbeing		113,625	5,300	118,925	16,248	135,173
Director of Development & Corporate Services		108,575	8,309	116,884	13,681	130,565
Director Governance, Finance and Public Services		111,100	5,300	116,400	13,999	130,399
Director of Children's Services	1	13,256	663	13,919	1,670	15,589
Director of Adult Services		108,575	5,766	114,341	13,681	128,022
Director of Education, Schools and Care	2	108,575	6,613	115,188	13,681	128,869
Head of Service – Communications	3	42,514	0	42,514	5,357	47,871
Interim Head of Service – Communications	4	25,623	0	25,623	3,228	28,851
Director of Financial Resources		89,445	5,188	94,633	11,270	105,903

[1] The Director of Children's Services took up the post on 15 February 2017. The post was undertaken on an interim basis from April 2016 until February 2017 through a part-time secondment from Blackburn with Darwen Borough Council.

[2] The Director of Children's Services in 2015/16 moved to a new post of Director of Education, Schools and Care on 1 April 2016.

[3] The Head of Service – Communications ceased employment with the Council on 4 November 2016.

[4] The interim Head of Service – Communications took up the post on 7 November 2016.

Officers' remuneration - 2015/16

Postholder	Note	Salary, fees and allowances	Benefits in kind (lease car payments / excess mileage)	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contribution
		£	£	£	£	£
Chief Executive - J Turton		170,000	5,300	175,300	21,420	196,720
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		124,044	7,927	131,971	15,630	147,601
Corporate Director Operations and Delivery		126,624	4,163	130,787	15,955	146,742
Director Public Health and Wellbeing		110,000	5,300	115,300	15,730	131,030
Director of Development & Corporate Services		105,000	8,605	113,605	13,230	126,835
Director Governance, Finance and Public Services		107,500	5,059	112,559	13,545	126,104
Director of Children's Services		105,032	6,956	111,988	13,230	125,218
Director of Adult Services		105,046	3,435	108,481	13,256	121,737
Director Lancashire Pension Fund	1	85,717	0	85,717	10,800	96,517
Head of Service – Communications		70,007	0	70,007	8,821	78,828
Director of Financial Resources	2	20,507	1,249	21,756	2,584	24,340

[1] The Director Lancashire Pension Fund held the position for the full 12 month period. This position was disestablished on 31 March 2016.

[2] The Director of Financial Resources acted as interim director to cover sickness absence for the period of October and November 2015 and was appointed to the post permanently on the 29 February 2016. This position was previously held by an external consultant who was appointed from March 2015 to March 2016. Payments totalling £140,270 excluding VAT were made to the company DDL Consultancy Limited in 2015/16.

The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following tables.

Number of employees - 2016/17

Remuneration Banding £	LCC Non Teaching Staff [1]	Seconded Staff	Schools [2]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	66	5	324	0	395	21
55,000 to 59,999	26	9	239	0	274	10
60,000 to 64,999	51	0	155	0	206	7
65,000 to 69,999	30	4	67	0	101	8
70,000 to 74,999	3	0	30	0	33	2
75,000 to 79,999	6	0	16	0	22	6
80,000 to 84,999	1	0	18	0	19	0
85,000 to 89,999	0	0	7	0	7	0
90,000 to 94,999	3	0	6	0	9	0
95,000 to 99,999	3	0	6	1	10	1
100,000 to 104,999	1	0	4	0	5	0
105,000 to 109,999	1	0	2	0	3	0
110,000 to 114,999	0	0	1	0	1	0
115,000 to 119,999	1	0	0	0	1	0
120,000 to 124,999	1	0	0	0	1	0
Total	**193**	**18**	**875**	**1**	**1,087**	**55**

[1] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.

[2] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Number of employees - 2015/16

Remuneration Banding [1] £	LCC Non Teaching Staff [2]	Seconded Staff	Schools [3]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	62	6	305	0	373	16
55,000 to 59,999	39	5	237	0	281	18
60,000 to 64,999	59	3	140	0	202	17
65,000 to 69,999	42	3	49	0	94	15
70,000 to 74,999	13	0	26	0	39	11
75,000 to 79,999	14	0	21	0	35	13
80,000 to 84,999	7	0	10	0	17	5
85,000 to 89,999	6	0	10	1	17	5
90,000 to 94,999	6	0	7	0	13	2
95,000 to 99,999	9	1	6	0	16	10
100,000 to 104,999	12	0	4	0	16	9
105,000 to 109,999	2	0	1	0	3	2
110,000 to 114,999	4	0	0	0	4	2
115,000 to 119,999	1	0	0	0	1	0
120,000 to 124,999	3	0	0	0	3	2
125,000 to 129,999	1	0	0	0	1	1
160,000 to 164,999	1	0	0	0	1	1
Total	**281**	**18**	**816**	**1**	**1,116**	**129**

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

[2] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.

[3] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

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 not 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).

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding (£)	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**
0-20,000	42	19	406	451	448	**470**	3,545	**3,703**
20,001-40,000	3	1	91	104	94	**105**	2,578	**2,839**
40,001-60,000	1	1	22	27	23	**28**	1,129	**1,344**
60,001-80,000	0	0	6	16	6	**16**	407	**1,101**
80,001-100,000	0	0	4	19	4	**19**	355	**1,696**
100,001-150,000	0	0	5	18	5	**18**	567	**2,113**
150,001-200,000	0	0	1	7	1	**7**	191	**1,112**
Total	**46**	**21**	**535**	**642**	**581**	**663**	**8,772**	**13,908**

Note 12 - Members' allowances

2015/16 £000		2016/17 £000
1,190	Allowances payable to Members	1,225
65	Expenses payable to Members	61
1,255	**Total**	**1,286**

Note 13 - Fees payable to auditors

The Council incurred the following fees relating to external audit.

2015/16		2016/17
£000		£000
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
8	Fees incurred for other audit work undertaken by Grant Thornton	11
4	Fees payable in respect of other services provided by Grant Thornton during the year	0
125	**Total**	**124**

Notes supporting the movement in reserves statement

Note 14 - Adjustments between accounting basis and funding basis under regulations

This note details the adjustments made to the 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.

Further information is provided in Note 29 which details the movements on unusable reserves.

Adjustments between accounting basis and funding basis under regulations - 2016/17

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(38.0)	0	0	(38.0)	38.0
Financial instruments (transferred to the financial instruments adjustments account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transfers to or from the collection fund)	6.2	0	0	6.2	(6.2)
Holiday pay (transferred to the accumulated absences reserve)	(3.5)	0	0	(3.5)	3.5
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account):	(155.9)	0	42.1	(113.8)	113.8
Total adjustments to revenue resources	**(188.0)**	**0**	**42.1**	**(145.9)**	**145.9**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	8.7	(8.7)	0	0	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	25.4	0	0	25.4	(25.4)
Capital expenditure financed from revenue balances (transfer to the capital adjustment account)	0	3.6	0	3.6	(3.6)
Total adjustments between revenue and capital resources	**34.1**	**(5.1)**	**0**	**29.0**	**(29.0)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	50.7	0	(50.7)	0	0
Total adjustments to capital resources	**50.7**	**0**	**(50.7)**	**0**	**0**
Total adjustments	**(103.2)**	**(5.1)**	**(8.6)**	**(116.9)**	**116.9**

Adjustments between accounting basis and funding basis under regulations - 2015/16

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(40.4)	0	0	(40.4)	40.4
Financial instruments (transferred to the financial instruments adjustments account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transfers to or from the collection fund)	(2.9)	0	0	(2.9)	2.9
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account):	(53.8)	0	18.2	(35.6)	35.6
Total adjustments to revenue resources	**(93.9)**	**0**	**18.2**	**(75.7)**	**75.7**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	11.2	(11.2)	0	0	0
Statutory provision for the repayment of debt (transfer from the capital adjustment account)	24.1	0	0	24.1	(24.1)
Capital expenditure financed from revenue balances (transfer to the capital adjustment account)	0	26.5	0	26.5	(26.5)
Total adjustments between revenue and capital resources	**35.3**	**15.3**	**0**	**50.6**	**(50.6)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	42.7	0	(42.7)	0	0
Total adjustments to capital resources	**42.7**	**0**	**(42.7)**	**0**	**0**
Total adjustments	**(15.9)**	**15.3**	**(24.5)**	**(25.1)**	**25.1**

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2015	Transfers out 2015/16	Transfers in 2015/16	Balance at 31 March 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 March 2017
	£m	£m	£m	£m	£m	£m	£m
County fund	(36.0)	0	0	(36.0)	0	0	(36.0)
Reserves held to meet spending pressures							
Business rates volatility reserve	(5.0)	5.0	0	0	0	0	0
Reserves held to deliver corporate priorities							
Strategic investment reserve	(21.4)	10.4	0	(11.0)	6.5	0	(4.5)
Reserves held to deliver organisational change							
Downsizing reserve	(80.6)	20.7	(5.0)	(64.9)	46.0	0	(18.9)
Risk management reserve	(82.0)	73.4	(7.2)	(15.8)	5.4	(0.1)	(10.5)
Transitional reserve	0	0	(141.8)	(141.8)	63.9	(84.1)	(162.0)
Reserves held to pay for expenditure commitments							
Election reserve	(0.8)	0	(0.4)	(1.2)	0	(0.4)	(1.6)
Funding of capital projects	(12.5)	12.7	(0.3)	(0.1)	0.1	(0.1)	(0.1)
School reserves							
Individual school reserves	(56.4)	10.6	(7.9)	(53.7)	16.3	(7.9)	(45.3)
Other school reserves	(33.5)	25.3	(17.9)	(26.1)	1.6	(3.0)	(27.5)
Centrally managed schools maintenance reserve	(6.1)	6.1	(6.2)	(6.2)	6.2	(6.4)	(6.4)
Reserves held to meet service priorities							
Corporate reserves	(0.1)	0	0	(0.1)	0	(0.1)	(0.2)
Directorate reserves	(89.2)	60.4	(15.0)	(43.8)	22.2	(8.6)	(30.2)
Building repairs and maintenance reserve	(1.1)	1.1	0	0	0	0	0
Total earmarked revenue and capital reserves	**(424.7)**	**225.7**	**(201.7)**	**(400.7)**	**168.2**	**(110.7)**	**(343.2)**

Notes supporting the movement in reserves statement

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.

Reserves held to deliver organisational change

Downsizing reserve

This reserve is set aside to support the Council as it continues to deliver its agreed savings and develops its strategy to reduce costs over the next two years.

Risk management reserve

This reserve is intended to help the Council manage risks to funding and service delivery going forward.

Transitional reserve

This reserve was created to meet the dual requirements of funding the lead-in time for the savings programme in 2016/17 and 2017/18 as well as providing the resources necessary to cover the funding shortfall in those two years until further budget savings could be identified.

Reserves held to pay for expenditure commitments

County Council election reserve

This reserve is used to fund the fees and charges relating to the administration of the County Council elections.

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, the Council holds it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.

Reserves held to meet service priorities

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

Note 16 - Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the following table together with the resources that have been used to finance it.

This statement incorporates details of the movements in the capital financing requirement (CFR). This is a measure of the capital expenditure historically incurred by the Council to be financed in future years by charges to revenue.

31 March 2016		31 March 2017
£m		£m
1,002.5	**Opening capital financing requirement**	**978.4**
	Capital investment	
148.8	Property, plant and equipment	164.4
7.2	Intangible assets	2.1
30.1	Revenue expenditure funded from capital under statute	10.6
186.1	**Total capital investment**	**177.1**
	Sources of finance	
(26.5)	Capital receipts	(3.6)
(152.7)	Government grants and other contributions	(123.6)
	Sums set aside from revenue:	
(6.9)	Direct revenue contributions	(0.9)
(4.7)	Write down of PFI liability	(5.3)
(19.4)	Minimum revenue provision (MRP) for debt repayment	(20.0)
978.4	**Closing capital financing requirement**	**1,002.1**
	Explanation of movement in year	
(14.5)	Increase in underlying need to borrow (supported by Government financial assistance)	(8.9)
(4.9)	Increase in underlying need to borrow (unsupported by Government financial assistance)	37.9
(4.7)	Write down of PFI liability	(5.3)
(24.1)	**Total movement**	**23.7**

Note 17 - Capital contractual commitments

At 31 March 2017 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2017/18 or future years.

The major contractual commitments are as follows:

PFI schemes

Capital payments remaining under the PFI contracts are £162.4 million (Note 27).

Department for Transport – Challenge Fund street lighting

2017/18 - £8 million to;

- replace 67,000 energy inefficient street lighting lanterns with modern LED equivalents;
- replace up to 4,000 lighting columns that have reached the end of their service life;
- fund 150 charging points to encourage a greater uptake of ultra-low emission vehicles.

Note 18 - Property, plant and equipment

Movements in the property, plant and equipment valuations are detailed in the following tables:

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Assets under construction	Total
	£m	£m	£m	£m	£m
Carried at historical cost	**67.2**	**100.4**	**978.5**	**50.3**	**1,196.4**
31 March 2017	705.6	0	0	0	**705.6**
31 March 2016	763.2	0	0	0	**763.2**
31 March 2015	117.9	0	0	0	**117.9**
31 March 2014	143.0	0	0	0	**143.0**
31 March 2013	0.7	0	0	0	**0.7**
Total cost or valuation	**1,797.6**	**100.4**	**978.5**	**50.3**	**2,926.8**

Property, plant and equipment - movements in 2016/17

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Assets under construction	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2016	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**	**122.7**
Additions	28.8	17.1	71.4	47.1	**164.4**	0.3
De-recognition – disposals	(9.8)	0	0	0	**(9.8)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	14.2	0	0	0	**14.2**	(0.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(168.1)	0	0	0	**(168.1)**	(11.5)
Assets reclassified	(4.1)	0	0.1	(4.8)	* **(8.8)**	0
At 31 March 2017	**1,797.6**	**100.4**	**978.5**	**50.3**	**2,926.8**	**111.3**
Depreciation and impairment						
At 1 April 2016	**(89.6)**	**(52.3)**	**(111.3)**	**0**	**(253.2)**	**(1.3)**
Depreciation charge	(23.8)	(6.3)	(16.8)	0	**(46.9)**	(1.2)
Depreciation written out to revaluation reserve	25.5	0	0	0	**25.5**	0
Depreciation written out to the surplus/deficit on provision of services	9.5	0	0	0	**9.5**	1.1
De-recognition	0.4	0	0	0	**0.4**	0
Reclassification	0.2	0	0	0	**0.2**	0
At 31 March 2017	**(77.8)**	**(58.6)**	**(128.1)**	**0**	**(264.5)**	**(1.4)**
At 1 April 2016	1,847.0	31.0	795.7	8.0	**2,681.7**	121.4
At 31 March 2017	**1,719.8**	**41.8**	**850.4**	**50.3**	**2,662.3**	**109.9**

* The £8.8 million balance on assets reclassified relates to assets held for sale

Property, plant and equipment - movements in 2015/16

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Assets under construction	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**	**244.8**
Additions	23.9	6.0	112.7	6.2	148.8	0.4
De-recognition – disposals	(3.8)	0	0	0	(3.8)	0
Revaluation increases/(decreases) recognised in the revaluation reserve	38.2	0	0	0	38.2	(10.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(124.4)	0	0	0	(124.4)	(81.1)
Assets reclassified	41.8	(3.5)	0	(38.0)	* 0.3	(31.2)
At 31 March 2016	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**	**122.7**
Depreciation and impairment						
At 1 April 2015	**(91.4)**	**(49.5)**	**(96.7)**	**0**	**(237.6)**	**(5.0)**
Depreciation charge	(24.4)	(6.7)	(14.6)	0	(45.7)	(1.9)
Depreciation written out to revaluation reserve	25.2	0	0	0	25.2	2.5
Depreciation written out to the surplus/deficit on provision of services	4.8	0	0	0	4.8	3.1
De-recognition	0.1	0	0	0	0.1	0
Reclassification	(3.9)	3.9	0	0	0	0
At 31 March 2016	**(89.6)**	**(52.3)**	**(111.3)**	**0**	**(253.2)**	**(1.3)**
At 1 April 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**	**239.8**
At 31 March 2016	**1,847.0**	**31.0**	**795.7**	**8.0**	**2,681.7**	**121.4**

* The £0.3 million balance on assets reclassified relates to assets held for sale

Note 19 - School assets

At the beginning of the financial year the Council had 14 schools subject to PFI contracts, the buildings for which are shown on the Council's balance sheet together with the related liability.

Schools included on the Council's balance sheet

Restated 31 March 2016			31 March 2017	
Number of schools	Value of land and buildings		Number of schools	Value of land and buildings
	£m			£m
269	* 687.8	Community schools	269	701.2
11	87.8	Foundation schools	11	75.9
269	* 504.9	Voluntary aided schools	269	519.8
50	* 89.7	Voluntary controlled schools	50	97.3
599	*** 1,370.2**	**Total**	**599**	**1,394.2**
14	121.4	Schools included above subject to PFI contracts	14	109.9

* 2015/16 restated

Note 20 - Heritage assets

Heritage assets are those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture.

Paintings, furniture and other artefacts

The museum service contains around 140,000 items which cover a variety of artefacts which are relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a libraries special collection which consists of publications held for their historical and cultural importance.

Collections and their records can be accessed in a number of ways from virtual access to physical examination of items on display in exhibitions. For any items held in store a mutually convenient appointment is needed to view them.

There have been no additions or disposals during the year and the values remain unchanged from 2016/17.

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2017	3.0	11.1	14.6	28.7
At 31 March 2016	3.0	11.1	14.6	28.7

Note 21 - Long term debtors

31 March 2016		31 March 2017
£m		£m
35.6	Transferred Debt [1]	33.9
33.3	Finance Lease Debtor [2]	32.3
68.9	**Total**	**66.2**

[1] Transferred debt is managed for other authorities as a result of various local government reorganisations, which is being repaid over time.

[2] Finance lease debtor is a long term debtor due to the Council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 28).

Note 22 - Short term debtors

31 March 2016		31 March 2017
£m		£m
13.3	Central Government bodies	11.6
31.7	Other local authorities	22.3
7.6	NHS bodies	16.4
0.1	Public corporations	0
16.2	Council tax	17.7
0.8	Non-domestic rates	0.8
39.5	Other entities and individuals	46.3
109.2	**Total**	**115.1**

Note 23 - 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 3 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 includes cash on call and 3 months or less term deposit and also instant access money market funds.

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

31 March 2016		31 March 2017
£m		£m
0.7	Cash held by the Council	0.7
33.3	Bank current accounts	29.1
10.7	Short term deposits under 3 months	147.8
44.7	**Total**	**177.6**

Note 24 - Short term creditors

Restated 31 March 2016		31 March 2017
£m		£m
(19.9)	Central Government bodies	(20.8)
(17.4)	Other local authorities	(12.6)
(7.2)	NHS bodies	(6.3)
(0.4)	Public corporations and trading funds	0
* (134.6)	Other entities and individuals	(156.2)
(179.5)	**Total**	**(195.9)**

* 2015/16 restated

Note 25 - Provisions

Funds are set aside to provide for specific expenses for which the exact cost and timing are still uncertain.

	Balance at 1 April 2016	Additional provision made in 2016/17	Spending met from the provision in 2016/17	Balance at 31 March 2017
	£m	£m	£m	£m
Insurance provision	(15.3)	(11.9)	8.4	(18.8)
MMI provision	(3.5)	0	0.9	(2.6)
Other long term provisions	(0.2)	0	0	(0.2)
Total long term provisions	**(19.0)**	**(11.9)**	**9.3**	**(21.6)**
Business rates appeals	(7.6)	(4.2)	7.6	(4.2)
Early retirement	(2.9)	(0.5)	2.8	(0.6)
Other short term provisions	(1.7)	(1.0)	0.5	(2.2)
Total short term provisions	**(12.2)**	**(5.7)**	**10.9**	**(7.0)**
Total provisions	**(31.2)**	**(17.6)**	**20.2**	**(28.6)**

Insurance provision

Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance which are below our insurance excess and our self-insured limits.

Municipal Mutual Insurance (MMI)

Provision in respect of MMI for costs due to be paid under the Scheme of Arrangement for managing the outstanding liabilities resulting from claims being made.

Business rates appeals

This provision accounts for the 9% share of the business rates appeals impact estimated by the 12 Lancashire Districts.

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments. The term covers both financial assets such as bank deposits, investments and loans by the Council and amounts receivable and financial liabilities including amounts borrowed by the Council and amounts payable.

Full disclosure notes in respect of financial instruments are provided in a separate technical annex (page 91).

The disclosures include:

- gains and losses on financial instruments;
- fair value of assets and liabilities carried at amortised cost;
- the nature and extend of risks arising from financial instruments.

Financial assets

Restated 31 March 2016				31 March 2017		
£m				£m		
Long term	Short term	Total	Category	Long term	Short term	Total
53.0	10.3	**63.3**	Loans and receivables	70.5	0	**70.5**
392.0	0	**392.0**	Available for sale financial assets	200.8	0	**200.8**
0	109.4	**109.4**	Financial assets at fair value through profit and loss	0	171.9	**171.9**
445.0	**119.7**	**564.7**	**Total investments**	**271.3**	**171.9**	**443.2**
0	44.7	**44.7**	Cash and cash equivalents	0	177.6	**177.6**
68.9	* 68.0	**136.9**	Debtors #	66.2	81.1	**147.3**
513.9	**232.4**	**746.3**	**Total financial assets**	**337.5**	**430.6**	**768.1**
# The debtors figure stated is lower than the debtors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions						
0	*41.2*	*41.2*		*0*	*34.0*	*34.0*

* The 2015/16 debtors figure has been restated to exclude business rates.

Financial liabilities

31 March 2016				31 March 2017		
£m				£m		
Long term	Short term	Total	Category	Long term	Short term	Total
(583.4)	(399.2)	**(982.6)**	Financial liabilities at amortised cost	(584.4)	(463.8)	**(1,048.2)**
0	* (132.5)	**(132.5)**	Creditors #	0	(151.9)	**(151.9)**
(163.1)	(4.6)	**(167.7)**	Other financial liabilities (PFI) at amortised cost	(157.3)	(5.1)	**(162.4)**
(746.5)	**(536.3)**	**(1,282.8)**	**Total financial liabilities**	**(741.7)**	**(620.8)**	**(1,362.5)**
# The creditors figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions						
0	*47.0*	*47.0*		*0*	*44.0*	*44.0*

* The 2015/16 creditors figure has been restated to exclude business rates.

Note 27 - Private finance initiative (PFI)

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 3.5% is made for future inflation within the model.

Fleetwood High School

The Council signed a PFI contract with Fleetwood PPP Limited in 2001 to build and service a new single site school. The arrangement runs from September 2002 to August 2027.

Payments remaining to be made under the PFI contract at 31 March 2017 (excluding any availability/performance deductions) are as follows:

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2017/18	0.3	0.5	1.1	1.9
Payment within 2 to 5 years	1.5	2.2	3.9	7.6
Payment within 6 to 10 years	2.2	4.2	3.6	10.0
Payment within 11 to 15 years	0.1	0.5	0.2	0.8
Total	**4.1**	**7.4**	**8.8**	**20.3**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2016		31 March 2017
£m		£m
(1.3)	PFI grant from the Government	(1.3)
(0.4)	Contributions from the school	(0.4)
(1.7)	**Total**	**(1.7)**

Building schools for the future (BSF)

The building schools for the future programme aimed to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 4 separate phases under contract with Catalyst Education (Lancashire) Limited. 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.

Consolidated payments remaining to be made under the PFI contract as at 31 March 2017 for the four phases above (excluding any availability/performance deductions) are as shown in the following table:

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2017/18	9.9	4.6	14.4	28.9
Payment within 2 to 5 years	43.8	22.2	54.6	120.6
Payment within 6 to 10 years	66.2	38.4	58.3	162.9
Payment within 11 to 15 years	88.5	51.8	38.4	178.7
Payment within 16 to 20 years	38.6	38.0	14.9	91.5
Total	**247.0**	**155.0**	**180.6**	**582.6**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2016		31 March 2017
£m		£m
(20.6)	PFI grant from the Government	(20.6)
(8.8)	Contributions from the school	(9.1)
(0.1)	Contributions from the local authority	(0.1)
(29.5)	**Total**	**(29.8)**

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

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

31 March 2016		31 March 2017
£m		£m
(172.4)	**Balance outstanding at start of year**	**(167.7)**
4.7	Payments during the year	5.3
(167.7)	**Balance outstanding at year end**	**(162.4)**

Under all these contracts (Fleetwood High School 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 on Council default, or termination by the Council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

Note 28 - Leases

Council as lessor – finance leases

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.

The Council has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee, and finance income earned by the Council whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

Finance lease debtor (net present value of minimum lease payments)

31 March 2016		31 March 2017
£m		£m
0.9	Current	1.0
33.3	Non-current	32.3
18.7	Unearned finance income	17.3
52.9	**Gross investment in the finance lease**	**50.6**

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

31 March 2016			31 March 2017	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	0.9	Not later than one year	2.2	1.0
9.0	4.0	Later than one year and not later than 5 years	9.0	4.2
41.7	29.3	Later than 5 years	39.4	28.1
52.9	**34.2**	**Total**	**50.6**	**33.3**

Note 29 - Reserves

Usable reserves

The total usable reserves are shown in the table below:

2015/16		2016/17
£m		£m
(36.0)	County fund	(36.0)
(278.6)	Earmarked reserves	(227.9)
(86.0)	School reserves	(79.2)
(0.1)	Capital funding reserve	(0.1)
(400.7)	**Total earmarked reserves**	**(343.2)**
(64.6)	Capital grants unapplied reserve	(73.2)
(17.7)	Usable capital receipts	(22.8)
(483.0)	**Total usable reserves**	**(439.2)**

Unusable reserves

The table below gives details of the Council's unusable reserves:

31 March 2016		31 March 2017
£m		£m
8.8	Available for sale financial instruments reserve	7.7
45.0	Financial instruments adjustment account	41.7
(724.9)	Revaluation reserve	(750.7)
(1,047.5)	Capital adjustment account	(976.5)
1,049.9	Pensions reserve	1,331.1
(3.5)	Collection fund adjustment account	(9.7)
23.2	Accumulated absences adjustment account	26.7
(649.0)	**Total**	**(329.7)**

Financial instruments 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.

2015/16		2016/17
£m		£m
48.2	**Balance at 1 April**	**45.0**
(3.2)	Proportion of premiums incurred in previous financial years to be charged against County Fund balance	(3.3)
45.0	**Balance at 31 March**	**41.7**

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.

2015/16		2016/17
£m		£m
(674.2)	**Balance at 1 April**	**(724.9)**
(164.2)	Upward revaluation of assets	(126.5)
100.9	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	86.8
(63.3)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(39.7)**
10.7	Difference between fair value depreciation and historical cost depreciation	11.6
1.9	Accumulated gains on assets sold or scrapped	2.3
12.6	**Amount written off to the capital adjustment account**	**13.9**
(724.9)	**Balance at 31 March**	**(750.7)**

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

The account also 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.

2015/16 £m		2016/17 £m
(1,020.0)	**Balance at 1 April**	(1,047.5)
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
45.7	Charges for depreciation and impairment of non-current assets	46.9
112.5	Revaluation losses on property, plant and equipment including assets held for sale	162.0
4.4	Amortisation of intangible assets	5.1
30.1	Revenue expenditure funded from capital under statute	10.6
4.8	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	11.7
(4.7)	Write down of PFI liability	(5.3)
(12.6)	Adjusting amount written out of the revaluation reserve	(13.9)
(839.8)	**Net written out amount of the cost of non-current assets consumed in the year**	(830.4)
	Capital financing applied in the year	
(134.6)	Capital grants and contributions credited to the comprehensive income and expenditure statement	(114.9)
(18.1)	Application of capital grants to capital financing from the capital grants unapplied account	(8.7)
(26.5)	Application of capital receipts to capital financing from the capital receipts reserve	(3.6)
(19.4)	Statutory provision for the financing of capital investment charged against the County Fund	(20.0)
(6.9)	Capital expenditure charged against the County Fund	(0.9)
(205.5)		(148.1)
(2.2)	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	2.0
(1,047.5)	**Balance at 31 March**	(976.5)

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 the pension fund.

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.

2015/16		2016/17
£m		£m
1,238.2	**Balance at 1 April**	**1,049.9**
(228.7)	Remeasurement of the net defined benefit liability/(asset)	243.2
132.4	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	133.1
(92.0)	Employer's pension contributions and direct payments to pensioners payable in the year	(95.1)
1,049.9	**Balance at 31 March**	**1,331.1**

Note 30 - Cash flows from operating activities

The net surplus or deficit on the provision of services in the comprehensive income and expenditure statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

31 March 2016 £m		31 March 2017 £m
(28.7)	Interest received	(35.2)
35.1	Interest paid	34.5

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2016 £m		31 March 2017 £m
43.5	Depreciation	46.9
117.5	Impairment and downward valuations	160.7
3.3	Amortisation of intangible assets	5.1
(7.0)	Increase/(decrease) in provision for bad debts	(1.2)
(1.4)	Increase/(decrease) in creditors	9.2
19.8	(Increase)/decrease in debtors	(4.0)
0.3	(Increase)/decrease in inventories	(0.8)
40.4	Movement in pension liability	38.0
4.7	Carrying amount of non-current assets sold	11.7
1.0	Other non-cash items charged to the surplus or deficit on the provision of services	(0.5)
222.1	**Total**	**265.1**

Notes supporting the cash flow statement

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

31 March 2016 £m		31 March 2017 £m
(16.1)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(24.7)
(11.2)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8.7)
(177.2)	Capital grants credited to the surplus on the provision of services	(132.2)
(204.5)	**Total**	**(165.6)**

Note 31 - Cash flows from investing activities

31 March 2016 £m		31 March 2017 £m
(159.0)	Purchase of property, plant and equipment, investment property and intangible assets	(161.3)
(6,280.6)	Purchase of short term and long term investments	(8,408.3)
0	Other payments for investing activities	(17.5)
6.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12.2
6,235.7	Proceeds from the sale of short term and long term investments	8,580.5
195.3	Other capital grants and receipts from investing activities	134.9
(2.1)	**Net cash flows from investing activities**	**140.5**

Note 32 - Cash flows from financing activities

31 March 2016 £m		31 March 2017 £m
1,104.5	Cash receipts from short term and long term borrowing	1,059.0
2.9	Appropriate to/from Collection Fund Adjustment Account	(6.2)
(1,163.9)	Repayment of short term and long term borrowing	(993.5)
(4.7)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.7)
(61.2)	**Net cash flows from financing activities**	**53.6**

Note 33 - Related party transactions

The Council is required to disclose material transactions with related parties - bodies and 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 effective control over the general operations of the Council as 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 and housing benefits). Grant income from Government departments is shown in Note 9.

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are also appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. The total of Members' allowances paid in 2016/17 is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection.

The following payments were made in 2016/17 for services to companies in which Members have declared interests.

	Income received £	Payments made £	Balance owed at 31 March 2017 £
Rossendale Transport Limited (trading as Rosso)	(18,432)	1,358,985	72,658
Bushell House		163,948	39,776

Chief Officers

Officers are appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. All officers are required to declare any relevant interests and also those of their family members.

The following payments were made for services to companies in which chief officers have declared interests.

	Income received £	Payments made £	Balance owed at 31 March 2017 £
Preston's College	(1,693)	564,651	13,053

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £0.6 million in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of the members of the Pension Fund and contributed £87 million to the fund in 2016/17.

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

The Council's Director of Financial Resources and Section 151 officer is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (c5%) of the Director's salary.

Interests in companies and other entities

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity. Where the value of the interest is considered to be immaterial, the company is not consolidated in the group accounts.

Lancashire County Developments Limited

Lancashire County Developments Limited (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 Lancashire County Council. The transactions of LCDL are included within the Council's group accounts on page 137.

Global Renewables Lancashire Operations Limited

Lancashire County Council entered into the Waste PFI Project Agreement with Global Renewables Lancashire Limited (GRLL) in March 2007. The contract with GRLL was for the financing, design, construction and operation of two strategic waste management Facilities at Leyland and Thornton. In 2014 the Waste PFI Project Agreement was brought to an end. The assets, namely the two strategic waste management facilities at Leyland and Thornton, were transferred to the County Council. The operating company Global Renewables Lancashire Operations Ltd (GRLOL) was acquired with Lancashire County Council having an 87.5% shareholding in the company and the remaining 12.5% owned by Blackpool Council.

Details of related party transactions are outlined below.

2015/16		2016/17
£m		£m
(0.1)	Income received during the year from Global Renewables	(0.1)
39.4	Payments made during the year to Global Renewables	26.1
(2.5)	Amounts owed at the year end from Global Renewables	(0.1)
2.2	Amounts owed at the year end to Global Renewables	1.2

Local Pensions Partnership Limited

On 8 April 2016 Lancashire County Council entered into a joint venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April.

LPP operates the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund, the Pension Fund Committee.

Details of related party transactions are outlined below.

	2016/17
	£m
Income received during the year from Local Pensions Partnership	(0.7)
Payments made during the year to Local Pensions Partnership	0.1
Amounts owed at the year end from Local Pensions Partnership	(0.2)
Amounts owed at the year end to Local Pensions Partnership	0

Note 34 - Pooled budgets

The Council is the host partner of the pooled funds in respect of learning disability services and the Better Care Fund. The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

Pooled budget for learning disabilities

The Council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities. Any surplus or deficit generated is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

2015/16		2016/17
£m		£m
	Funding provided to the pooled budget	
(113.8)	Lancashire County Council	(113.8)
(1.4)	NHS Lancashire North CCG	(1.4)
(1.4)	NHS Fylde and Wyre CCG	(1.4)
(0.2)	NHS Blackpool CCG	(0.2)
(0.1)	NHS Greater Preston CCG	(0.1)
(2.1)	NHS Chorley and South Ribble CCG	(2.1)
(1.1)	NHS Greater Preston – central pool	(1.1)
(1.1)	NHS West Lancashire CCG	(1.1)
(1.9)	NHS East Lancashire CCG	(1.9)
(0.4)	Other	(0.4)
(123.5)	**Total**	**(123.5)**
	Expenditure met from the pooled budget	
124.4	Lancashire County Council	130.9
1.5	NHS Lancashire North CCG	1.8
1.5	NHS Fylde and Wyre CCG	1.8
0.2	NHS Blackpool CCG	0.2
0.1	NHS Greater Preston CCG	0.1
2.4	NHS Chorley and South Ribble CCG	2.6
1.3	NHS Greater Preston – central pool	1.4
1.2	NHS West Lancashire CCG	1.4
2.0	NHS East Lancashire CCG	1.5
134.6	**Total**	**141.7**
11.1	**Net (surplus)/deficit arising on the pooled budget during the year**	**18.2**
10.2	**Council share of the net (surplus)/deficit**	**16.7**

Better care fund

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to *'drive closer integration and improve outcomes for patients and service users and carers'*. The fund is a partnership arrangement whereby clinical commissioning groups and the Council contribute an agreed level of resource into a single pooled budget that is then used to commission or deliver health and social care services.

The BCF plan sets out the Council and its partners' vision to deliver an integrated health and social care system to reduce the demand on acute hospital and care home provision in favour of sustainable integrated neighbourhood health and social care. The regulations require that one of the partners is nominated as the host of the pooled budget and this body is then responsible for the budget's overall accounts and audit. It has been agreed that Lancashire County Council will act as the host for the BCF agreement in Lancashire.

2015/16		2016/17
£m		£m
	Funding provided to the pooled budget	
(9.4)	Lancashire County Council	(11.5)
(26.4)	NHS East Lancashire CCG	(26.1)
(13.2)	NHS Greater Preston CCG	(13.4)
(11.3)	NHS Chorley and South Ribble CCG	(11.6)
(11.0)	NHS Fylde and Wyre CCG	(10.9)
(10.5)	NHS Lancashire North CCG	(10.5)
(7.4)	NHS West Lancashire CCG	(7.4)
(89.2)	**Total**	**(91.4)**
	Expenditure met from the pooled budget	
25.3	Lancashire County Council (Revenue)	25.3
3.1	Lancashire County Council (Capital)	0
18.2	NHS East Lancashire CCG	17.8
8.9	NHS Greater Preston CCG	9.2
7.9	NHS Chorley and South Ribble CCG	8.2
7.3	NHS Fylde and Wyre CCG	7.2
7.1	NHS Lancashire North CCG	7.2
5.0	NHS West Lancashire CCG	5.0
6.4	Disabled Facilities Grant	11.5
89.2	**Total**	**91.4**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

Note 35 - Trust funds

The Council administers several small trust and special funds. Most of the trust funds are as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area.

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

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes. The revenue accounts record the day to day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Adult services, health and wellbeing	Children and young people	Other	Total	2015/16 Total
	£000	£000	£000	£000	£000
Capital accounts					
Balance as at 1 April	(3.6)	(206.4)	(0.8)	(210.8)	(219.3)
Net Movement in funds	(0.6)	(27.9)	0	(28.5)	8.5
Balance as at 31 March	(4.2)	(234.3)	(0.8)	(239.3)	(210.8)
Revenue accounts					
Balance as at 1 April	(6.9)	(77.9)	(19.5)	(104.3)	(91.5)
Income received	(0.2)	(7.6)	(15.5)	(23.3)	(23.1)
Less payments during the year	0	0	18.0	18.0	10.3
Balance as at 31 March	(7.1)	(85.5)	(17.0)	(109.6)	(104.3)
Aggregate balance as at 31 March	(11.3)	(319.8)	(17.8)	(348.9)	(315.1)

Note 36 - Events after the reporting period

Property strategy

Following the County Council elections which took place on 4 May 2017, the new administration have progressed the commitment to reopen libraries which were closed last year as a result of the Council's property strategy.

In the 2016/17 Statement of Accounts, the relevant libraries have been categorised as assets held for sale and valued on the basis of highest value and best use. As operational properties the libraries would be valued on the basis of depreciated replacement cost. The difference in value between the two methodologies is not considered material.

Pension fund payment

On 27 April 2017 the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2017/18 to 2019/20. The value of the payment totalled £118 million and resulted in a cash saving to the Council of £7.9 million.

Technical annex

Income, expense, gains and losses on financial instruments

The gains and losses on financial instruments recognised in the comprehensive income and expenditure statement are shown in the following tables:

2016/17

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Interest expense	34.6	0	0	0	34.6
Fee expense	0.3	0	0	0	0.3
Total expense in surplus on the provision of services	**34.9**	**0**	**0**	**0**	**34.9**
Interest income	0	(4.5)	(1.6)	(1.6)	(7.7)
Increases in fair value	0	0	0	(0.2)	(0.2)
Gains on de-recognition	0	0	(31.8)	(3.6)	(35.4)
Loss on de-recognition	0	0.0	10.5	0.3	10.8
Total income in surplus on the provision of services	**0**	**(4.5)**	**(22.9)**	**(5.1)**	**(32.5)**
(Gain)/loss on revaluation	0	0	(1.0)	0	(1.0)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**(1.0)**	**0**	**(1.0)**
Total net (gain)/loss for the year	**34.9**	**(4.5)**	**(23.9)**	**(5.1)**	**1.4**

2015/16

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Interest expense	34.7	0	0	0	34.7
Fee expense	0.7	0	0	0	0.7
Total expense in surplus on the provision of services	**35.4**	**0**	**0**	**0**	**35.4**
Interest income	0	(4.9)	(6.5)	(1.6)	(13.0)
Decreases in fair value	0	0	0	0.4	0.4
Gains on de-recognition	0	0	(11.5)	(6.7)	(18.2)
Loss on de-recognition	0	0.8	1.6	0.5	2.9
Total income in surplus on the provision of services	**0**	**(4.1)**	**(16.4)**	**(7.4)**	**(27.9)**
(Gain)/loss on revaluation	0	0	2.2	0	2.2
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**2.2**	**0**	**2.2**
Total net (gain)/loss for the year	**35.4**	**(4.1)**	**(14.2)**	**(7.4)**	**9.7**

Fair value of financial assets and liabilities

The Council discloses the fair value of each class of financial asset and liability so that it can be compared with the carrying amount in the balance sheet.

Accounting standards require the type of information used in fair value calculations (as classified in the hierarchy below) to be disclosed.

Level 1	quoted prices in active markets for identical assets or liabilities, e.g. bond prices
Level 2	inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3	unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the balance sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the balance sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.

- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair value of financial assets

Restated 31 March 2016				31 March 2017	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
		Financial assets held at fair value			
		Available for sale financial assets			
37.8	37.8	Local authority bonds	2	37.8	37.8
354.2	354.2	Bond, equity and property funds	1	163.0	163.0
392.0	**392.0**	**Sub total**		**200.8**	**200.8**
		Financial assets at fair value through profit and loss			
109.4	109.4	Bond, equity and property funds	1	171.9	171.9
		Financial assets held at amortised cost			
46.9	49.1	Long term bank deposits	2	46.9	50.1
33.3	37.2	Lease receivables	3	32.3	39.2
35.6	35.5	Transferred debt receivables	2	33.9	36.4
6.1	6.9	Long term loans to companies	3	23.6	29.1
121.9	**128.7**	**Sub total**		**136.7**	**154.8**
623.3	**630.1**	**Total**		**509.4**	**527.5**
123.0		**Assets for which fair value is not disclosed #**		258.7	
746.3		**Total financial assets**		**768.1**	
		Recorded on balance sheet as:			
68.9		Long term debtors		66.2	
445.0		Long term investments		271.3	
* 68.0		Short term debtors		81.1	
119.7		Short term investments		171.9	
44.7		Cash and cash equivalents		177.6	
746.3		**Total financial assets**		**768.1**	

The fair value of short term financial assets including trade receivables is assumed to approximate to the carrying amount.

* The 2015/16 debtors figure has been restated to exclude business rates.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at 31 March 2017) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

Restated 31 March 2016				31 March 2017	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
		Financial liabilities held at amortised cost			
338.9	389.8	Long term PWLB loans	2	338.9	411.2
52.1	106.9	Long term LOBO loans	2	52.1	106.9
192.5	195.7	Other long term loans	2	193.4	198.5
167.7	263.9	PFI liabilities	3	162.4	252.3
751.2	**956.3**	**Total**		**746.8**	**968.9**
531.6		**Liabilities for which fair value is not disclosed #**		615.7	
1,282.8	**956.3**	**Total financial liabilities**		**1,362.5**	
		Recorded on balance sheet as:-			
* 132.5		Short term creditors		151.9	
399.2		Short term borrowings		463.8	
583.4		Long term borrowings		584.4	
167.7		Other long term liabilities		162.4	
1,282.8		**Total financial liabilities**		**1,362.5**	

The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

* The 2015/16 creditors figure has been restated to exclude business rates.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.

This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

Financial instruments disclosure notes

The Council's 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 is the possibility that other parties might fail to pay amounts due to the Council.

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

This 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 Council can invest in an institution. This is dependent upon the quality of credit rating and in 2016/17 the investment portfolio has maintained a very high AA credit rating.

A main principle of the 2016/17 credit risk strategy was to invest mainly in UK government guaranteed bonds along with corporate bonds with a high credit rating. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

At the end of the year the Council's investments portfolio was placed as follows:

2015/16	Investment portfolio	Fitch rating	2016/17
£m			£m
	Long term investments		
229.5	Core UK gilts	AAA	162.4
37.8	Local authority bonds	AA	37.8
28.1	Core Supra national bonds	AAA	0
81.7	Core Supra national bonds	AA+	0
14.9	Core Supra national bonds	AA	0.6
392.0	**Long term investments**		**200.8**
	Long term deposits		
46.5	Other local authorities	AA	46.5
46.5	**Long term deposits**		**46.5**
438.5	**Total**		**247.3**
	Short term investments		
0	Local authority bonds	AA+	1.0
91.1	Traded commercial bonds	AAA	170.9
8.9	Traded commercial bonds	AA	0
9.4	Traded commercial bonds	AA-	0
109.4	**Short term investments**		**171.9**
	Short term deposits		
10.3	Other local authorities	AA	0
10.3	**Short term deposits**		**0**
119.7	**Total**		**171.9**

Excludes accrued investment income and long term loans.

The maximum single commercial exposure is to Twenty Four Secured Bond Fund at £30 million, which is lower than individual counterparty limit of £100 million for investments. Overall the portfolio is diversified by the use of 49 counterparties.

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

Liquidity risk

Liquidity risk is the danger that the Council will have insufficient funds in its bank account to make the payments necessary to meet its financial obligations.

The Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio which is also considered to be liquid. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of principal sums borrowed is as follows:

2015/16		2016/17
£m		£m
397.6	Under 1 year	462.4
397.6	**Total short term borrowing**	**462.4**
58.1	Maturing in 1 to 2 years	159.3
291.6	Maturing in 3 to 5 years	249.8
87.7	Maturing in 6 to 10 years	97.6
308.5	Maturing in more than 10 years	235.0
745.8	**Total long term borrowing**	**741.8**
1,143.4	**Total borrowing**	**1,204.1**

Market risk

Market risk is the possibility that financial loss might arise as a result of changes in interest rates and stock movements.

The market risk to which the Council is exposed in its financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that the Council holds are affected in different ways by changes in market interest rates.

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

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise.
Borrowing 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 a 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 2 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 £50 million 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.

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 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 2017 position.

The effect if interest rates were 1% higher with all other variables held constant

	2016/17 £m
Increase in interest payable on variable rate borrowings	4.4
Increase in interest receivable on variable rate investments	(1.5)
Decrease in fair value of investments held for trading*	0
Impact on surplus on the provision of services	**2.9**
Decrease in fair value of fixed rate available for sale investment assets	(51.1)
Impact on other comprehensive income and expenditure	
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)	(3.7)
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.

Post-employment benefit disclosure notes

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 (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council's principal pension arrangement for its employees is 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. The regulations require an actuarial valuation to be carried out every three years and require the contributions to be set with a view to targeting the fund's solvency. The detailed provisions are set out in the fund's funding strategy statement.

The most recent valuation was carried out at 31 March 2016, and showed a shortfall of assets against liabilities of £0.69 billion, equivalent to a funding level of 90%. The fund's employers are paying additional contributions over a period of 16 years in order to meet this shortfall.

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.

Post-employment benefit disclosure notes

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

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Full details of the responsibilities of the panel and committee are published in the Investment Strategy Statement.

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 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 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 risk

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. 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.

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.

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 pension 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.

Post-employment benefit disclosure notes

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2015/16	2016/17	2015/16	2016/17
	£m	£m	£m	£m
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	91.0	85.2	0	0
(Gain)/loss from settlements and curtailments	2.1	11.3	0	0
Administration expenses	1.4	1.8	0	0
Financing and investment income and expenditure				
Net Interest expense	33.6	30.4	4.3	4.4
Total post-employment benefit charged to the surplus or deficit on the provision of services	**128.1**	**128.7**	**4.3**	**4.4**
Other post-employment benefit charged to the comprehensive income and expenditure statement				
Re-measurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(38.1)	(411.6)	0	0
Experience (gains)/losses on liabilities	0	(103.6)	0	(4.6)
Actuarial (gains)/losses arising on changes in financial assumptions	(186.8)	778.4	(3.8)	14.6
Actuarial (gains)/losses arising on changes in demographic assumptions	0	(26.2)	0	(3.9)
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**(96.8)**	**365.7**	**0.5**	**10.5**
Movement in reserves statement				
Reversal of net charges made to the (surplus)/deficit on the provision of services for post-employment benefits in accordance with the Code	128.1	128.7	4.3	4.4
Actual amount charged against the County Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**81.2**	**84.6**	**10.8**	**10.5**

Investment risk

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

The Council recognises the costs of post-employment/retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the County Fund via the movement in reserves statement.

The following transactions have been made in the comprehensive income and expenditure statement and the movement in reserves statement during the year:

- In 2016/17 £52.9 million was paid to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£50.3 million and 14.1% in 2015/16).
- In 2016/17 the Council paid £0.3 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (£0.4 million and 14% in 2015/16).
- The Council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2016/17 these amounted to £8.7 million, representing 2.6% of pensionable pay (£8.3 million and 2.6% in 2015/16).

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 £243.2 million (£228.7 million loss in 2015/16) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £492.8 million.

Post-employment benefit disclosure notes

Assets and liabilities in relation to retirement benefits

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

2015/16		2016/17
£m		£m
2,353.6	**Opening balance as at 1 April**	**2,456.9**
38.1	Re-measurement (assets)	411.6
75.2	Interest on plan assets	85.9
(1.4)	Admin expenses	(1.8)
(0.8)	Settlements	(1.6)
81.2	Employer contributions	84.6
21.8	Contributions from scheme participants	22.5
(110.8)	Benefits/transfers paid	(113.3)
2,456.9	**Closing balance as at 31 March**	**2,944.8**

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Lancashire County Pension Fund		Unfunded liabilities: Teachers' Pension Scheme	
	2015/16	2016/17	2015/16	2016/17
	£m	£m	£m	£m
Opening balance as at 1 April	**(3,446.4)**	**(3,371.7)**	**(145.3)**	**(135.1)**
Current service cost	(91.0)	(85.2)	0	0
Interest on pension liabilities	(108.8)	(116.4)	(4.3)	(4.4)
Contributions from scheme participants	(21.8)	(22.5)	0	0
Benefits/transfers paid	110.8	113.3	10.7	10.4
Curtailment cost	(3.4)	(14.2)	0	0
- Gain/loss from settlements	2.1	4.6	0	0
Re-measurement gains and (losses):				
- Experience gains/(losses) on liabilities	0	103.6	0	4.6
- Actuarial gains/(losses) arising from changes in financial assumptions	186.8	(778.4)	3.8	(14.6)
- Actuarial gains/(losses) arising from changes in demographic assumptions	0	26.2	0	3.9
Closing balance as at 31 March	**(3,371.7)**	**(4,140.7)**	**(135.1)**	**(135.2)**

Local Government Pension Scheme assets comprised:

31 March 2016	Asset category	Quoted in active markets (Y/N)	31 March 2017
£m			£m
84.5	**Cash and cash equivalents**	N	**30.6**
	Equity instruments (by industry type):		
266.8	Consumer	Y	0
136.9	Manufacturing	Y	0
51.3	Energy and utilities	Y	0
149.0	Financial institutions	Y	0
89.1	Health and care	Y	0
151.2	Information technology	Y	0
844.3	**Sub-total equity**		* 0
	Bonds (by sector):		
50.0	Corporate	Y	48.4
49.4	Government	Y	58.4
99.4	**Sub-total bonds**		**106.8**
	Property (by type):		
84.2	Retail	N	80.3
152.0	Commercial	N	179.6
236.2	**Sub-total property**		**259.9**
	Private equity:		
40.1	UK	N	33.4
107.9	Overseas	N	156.4
148.0	**Sub-total private equity**		**189.8**
	Other investment funds:		
196.3	Infrastructure	N	355.9
33.9	Property	N	41.6
814.3	Miscellaneous	N	1,960.2
1,044.5	**Sub-total other investment funds**		**2,357.7**
2,456.9	**Total assets**		**2,944.8**

*All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.

Scheme history

The amounts included in the balance sheet arising from the Council's obligation in respect of its defined benefit plans are as follows:

Post-employment benefit disclosure notes

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Present value of scheme liabilities					
Local Government Pensions Scheme	(2,986.1)	(2,858.0)	(3,446.4)	(3,371.7)	(4,140.7)
Teachers' Pensions Scheme	(150.1)	(140.1)	(145.4)	(135.1)	(135.2)
Fair value of assets in the Lancashire County Pension Fund	**2,009.1**	**2,093.0**	**2,353.6**	**2,456.9**	**2,944.8**
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(977.0)	(765.0)	(1,092.8)	(914.8)	(1,195.9)
Teachers' Pensions Scheme	(150.1)	(140.1)	(145.4)	(135.1)	(135.2)
Total	**(1,127.1)**	**(905.1)**	**(1,238.2)**	**(1,049.9)**	**(1,331.1)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,331.1 million in 2016/17 has a substantial impact on the net worth of the Council as recorded in the balance sheet, resulting in net assets of £765.8 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Lancashire County Pension Fund by the Council in the year to 31 March 2018 are £59.6 million. Expected contributions for the teachers and health workers in the year to 31 March 2018 are £43.5 million and £0.1 million 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. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Post-employment benefit disclosure notes

The principal assumptions used by the actuary have been as follows:

2015/16		2016/17
Mortality assumptions		
Longevity at 65 for current pensioners		
23.0 years	Male	22.6 years
25.6 years	Female	25.2 years
Longevity at 65 for future pensioners		
25.2 years	Male	24.9 years
27.9 years	Female	27.9 years
Financial assumptions		
2.0%	Rate of CPI inflation	2.3%
3.5%	Rate of increase in salaries	3.8%
2.0%	Rate of increase in pensions	2.3%
3.5%	Rate for discounting scheme liabilities	2.5%

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 March 2016		31 March 2017
%		%
48.4	Equity investments	50.6
4.0	Bonds	3.6
47.6	Other assets	45.8
100.0	**Total**	**100.0**

Sensitivity analysis

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

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption	Decrease in assumption
	£m	£m
Longevity (increase or decrease in 1 year)	82.0	(82.0)
Rate of inflation (increase or decrease by 1%)	730.8	(730.8)
Rate of increase in salaries (increase or decrease by 1%)	147.7	(147.7)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(718.2)	718.2

Significant accounting policies

Significant accounting policies

General principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March 2017. The Accounts and Audit (England) Regulations require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Accruals of expenditure and income

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are made or received. In particular:

- income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- 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 income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. 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.

Capital receipts

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 be used for new capital investment or be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). From 1 April 2016 capital receipts can be used to fund expenditure on a project where incurring up-front costs will generate ongoing savings.

Council tax and non-domestic rates income

Both council tax and non-domestic rates are collected by the 12 Lancashire district councils (billing authorities) on behalf of the County Council.

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's County Fund, therefore, 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 charged to the collection fund adjustment account through the movement in reserves statement.

The year end balance sheet includes the Council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (non-domestic rates appeals).

Lancashire has a non-domestic rates pool, established on 1 April 2016, it comprises the County Council and most but not all of the local authorities in Lancashire, with Ribble Valley Borough Council designated as lead authority. Lancashire County Council will receive 10% of the overall retained levy with each district within the pool retaining 90% of their levy.

In the Lancashire non-domestic rates pool each council bears its own risk and takes its own reward under the pool agreement.

The net retained levy for the Council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement, along with the Council's own share of growth achieved in the year.

Employee benefits

Employee benefits payable during employment

Short-term employee benefits including 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

The Council recognises the cost of post-employment benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, statutory provisions require that the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the County Fund via the movement in reserves statement.

There are three pension schemes for Council staff. They are all defined benefit schemes.

Defined benefit scheme - 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.

Pension scheme	Administered by
Teachers' pension scheme	Capita Teachers' pensions on behalf of the Department for Education (DfE)
Local government pension scheme	Lancashire County Council
NHS pension scheme	NHS Business Services Authority on behalf of the Secretary of State for Health

Teachers' pension scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore, the scheme is 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 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. Liabilities are discounted to their value at current prices using a discount rate.

Projected unit method - 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.

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;
- property – market value.

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

Component	Description	Treatment
Service costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.

Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

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 may occur between the balance sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year.

Where an event occurring after the balance sheet date provides evidence of conditions that existed at the balance sheet date, the amounts recognised in the statement of accounts are adjusted.

Where an event that occurs after the balance sheet date is indicative of conditions that arose after the balance sheet date, the amounts recognised in the statement of accounts are not adjusted, but where this would have a material effect, it is disclosed in the notes to the accounts.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

Financial instruments

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's balance sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable whilst financial liabilities include amounts borrowed by the Council and amounts payable.

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.

Loans and receivables are initially measured at fair value and are subsequently carried 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. The amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

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.

Available for sale assets are initially recognised 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.

Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;

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

Changes in fair value (other than impairment losses) are balanced by an entry in the available for sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available for sale financial assets. Where 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.

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 against 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

Assets which are held primarily for trading or have a recent history of being traded.

Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.

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.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to 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.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet 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 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.

Government grants and other 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.

Group accounts

The Council undertakes its activities through a variety of undertakings, either under ultimate control or in partnership with other organisations. Those considered to be material are included in the group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

The Council has a material interest in an external entity and therefore group accounts have been prepared.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

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

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 for which 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.

The Council has a detailed acquisitions and disposal policy, further information on which can be obtained from the Council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long term purpose and, therefore, there is a strong presumption against disposal. 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.

Investment property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the balance sheet date. Gains and losses on revaluation are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment Income line and result in a gain for the County Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the movement in reserves statement and charged to the capital adjustment account.

Leases

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.

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 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 service segments in accordance with the Council's arrangements for accountability and financial performance.

Pooled budgets

The Council is the host partner of the pooled funds in respect of learning disability services and the Better Care Fund. The arrangement is made in accordance with Section 75 of the National Health

Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The arrangements are accounted for as joint operations and, therefore, the Council accounts for its share of the funds' assets, liabilities, expenditure and income.

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.

Private finance initiative (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 the 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.

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 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.

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.

Property, plant and equipment

Assets that have physical substance and are 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 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.

Componentisation

Where a 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.

Measurement

Assets are initially recognised at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- 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. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, 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.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value
All other assets	Existing use value

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

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

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Each year an estimate of the total current value of all operational land and building assets is calculated by applying local movement in valuation for similar assets and a range of indices to the carrying amounts of those assets. Indices are used to support market-based evidence that valuations are kept up to date rather than being used to calculate the carrying value of the assets. The revaluation programme is managed so that this estimate is not materially different to the carrying amount in the balance sheet.

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. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.
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 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.

Valuations are undertaken internally by Lancashire County Council's estates service.

The valuations for specialist operational properties are undertaken by external professional valuers. In the case of the waste plant, this has been undertaken by Rushton International.

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 in the comprehensive income and expenditure statement.

Disposals and non-current assets held for sale

Surplus assets are defined as assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale. Only when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction within the coming year, it is reclassified as an asset held for sale.

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. In this case the carrying amount is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale.
- 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 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. Disposal costs are shown in other operating expenditure in the comprehensive income and expenditure statement. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

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.

Depreciation

Depreciation is provided for on property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Land	Not depreciated
Buildings	Useful life as determined by the valuer
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset
Roads and highways infrastructure	10-120 years depending upon the nature of the asset
Community assets	Not depreciated
Assets under construction	Not depreciated
Investment properties	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is also calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the revaluation reserve to the capital adjustment account.

Charges to revenue for non-current assets

Services are charged 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. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP in the earmarked reserves balance by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Property, plant and equipment not owned by the Council

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the Council's property, plant and equipment as the Council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Provisions, contingent assets and contingent liabilities

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 assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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.

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. 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 held for technical accounting purposes in respect of 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 notes.

Revenue expenditure funded from capital under statute

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

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the County Fund to the capital adjustment account reverses out the amounts charged so that there is no impact on the level of council tax.

Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools lies with the local authority. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Department for Education.

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under children's and education services.

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.

Supplementary Accounts and Explanatory Notes

Introduction

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. These are classified into the categories of subsidiaries, joint ventures and associates.

Subsidiary

A subsidiary is an entity that is controlled by another entity (the Council).

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

Associate

An associate is an entity over which an investor (the Council) has significant influence.

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity. Where an entity is considered to be immaterial, it is not included in the group accounts. Details of the Council's relationships with other entities are detailed in the notes supporting the group accounts.

Group comprehensive income and expenditure statement

Restated 2015/16				2016/17		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
909.8	(900.3)	9.5	Schools	919.1	(908.2)	10.9
52.5	(0.8)	51.7	Chief executive	46.8	(7.1)	39.7
50.9	(23.7)	27.2	Commissioning	50.0	(29.1)	20.9
135.4	(44.7)	90.7	Development and corporate services	108.9	(39.6)	69.3
4.2	(6.1)	(1.9)	Lancashire pension fund	0	0	0
218.6	(45.2)	173.4	Community services	290.8	(41.4)	249.4
444.0	(130.1)	313.9	Adult services	478.9	(124.1)	354.8
249.5	(14.5)	235.0	Children's services	227.8	(11.6)	216.2
107.0	(75.5)	31.5	Public health and wellbeing	108.8	(84.6)	24.2
2,171.9	**(1,240.9)**	**931.0**	**Cost of services**	**2,231.1**	**(1,245.7)**	**985.4**
5.8	(18.4)	(12.6)	Other operating income and expenditure	12.8	(5.5)	7.3
73.4	(34.8)	38.6	Financing and investment income and expenditure	69.7	(33.8)	35.9
0	(922.9)	(922.9)	Taxation and non-specific grant income	0	(870.7)	(870.7)
2,251.1	**(2,217.0)**	**34.1**	**(Surplus)/deficit on provision of services**	**2,313.6**	**(2,155.7)**	**157.9**
0.9	0	0.9	Taxation on profit on ordinary activities (Note 6)	0.5	0	0.5
2,252.0	**(2,217.0)**	**35.0**	**Group (surplus)/deficit**	**2,314.1**	**(2,155.7)**	**158.4**
		(63.3)	(Surplus)/deficit on revaluation of non-current assets			(39.7)
		(228.7)	Re-measurement of the net defined benefit pension liability/(asset)			243.2
		2.2	(Surplus)/deficit on revaluation of available for sale assets			(1.1)
		(289.8)	**Other comprehensive income and expenditure**			**202.4**
		(254.8)	**Total comprehensive income and expenditure**			**360.8**

* 2015/16 restated

2016/17

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**	*** (42.3)**	**(1,174.3)**
Movement in reserves during 2016/17								
Total comprehensive income and expenditure	160.7	0	0	160.7	202.4	363.1	(2.3)	360.8
Adjustment between accounting basis and funding basis under regulations	(103.2)	(5.1)	(8.6)	(116.9)	116.9	0	0	0
(Increase)/decrease in year	**57.5**	**(5.1)**	**(8.6)**	**43.8**	**319.3**	**363.1**	**(2.3)**	**360.8**
Balance at 31 March 2017	**(343.2)**	**(22.8)**	**(73.2)**	**(439.2)**	**(329.7)**	**(768.9)**	**(44.6)**	**(813.5)**

2015/16

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Restated Reserves of subsidiaries	Restated Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2015	**(424.7)**	**(33.0)**	**(40.1)**	**(497.8)**	**(384.3)**	**(882.1)**	*** (37.4)**	**(919.5)**
Total comprehensive income and expenditure	39.9	0	0	39.9	(289.8)	(249.9)	(4.9)	(254.8)
Adjustment between accounting basis and funding basis under regulations	(15.9)	15.3	(24.5)	(25.1)	25.1	0	0	0
(Increase)/decrease in year	**24.0**	**15.3**	**(24.5)**	**14.8**	**(264.7)**	**(249.9)**	**(4.9)**	**(254.8)**
Balance at 31 March 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**	**(42.3)**	**(1,174.3)**

The new reporting format for the movement in reserves statement requires the restatement of the 2015/16 figures.

* 2015/16 restated

Group balance sheet

Restated 31 March 2016		Note	31 March 2017
£m			£m
2,681.7	Property, plant and equipment		2,662.3
28.7	Heritage assets		28.7
* 45.0	Investment properties	8	46.2
24.6	Intangible assets		21.7
* 443.2	Long term investments		268.9
* 68.9	Long term debtors		66.2
3,292.1	**Long term assets**		**3,094.0**
* 120.8	Short term investments		173.3
2.6	Inventories		3.6
109.2	Short term debtors		116.4
* 14.3	Payments in advance		9.0
51.1	Cash and cash equivalents		177.8
11.3	Assets held for sale		14.5
309.3	**Current assets**		**494.6**
(399.2)	Short term borrowing		(458.0)
* (178.2)	Short term creditors		(195.2)
* (14.4)	Receipts in advance		(10.5)
(12.2)	Short term provisions		(8.5)
(4.6)	Other current liabilities		(5.1)
(608.6)	**Current liabilities**		**(677.3)**
(19.0)	Long term provisions		(21.6)
* (1.5)	Deferred tax liability	9	(2.0)
(584.8)	Long term borrowing		(585.7)
(1,213.2)	Other long term liabilities		(1,488.5)
(1,818.5)	**Long term liabilities**		**(2,097.8)**
1,174.3	**Net assets**		**813.5**
* (483.0)	Usable reserves	10	(439.2)
* (649.0)	Unusable reserves	10	(329.7)
* (27.9)	Subsidiary usable reserves	10	(27.1)
* (14.4)	Subsidiary unusable reserves	10	(17.5)
(1,174.3)	**Total reserves**		**(813.5)**

* 2015/16 restated

Group cash flow statement

Restated 2015/16 £m		Note	2016/17 £m
* (35.0)	Net surplus/(deficit) on the provision of services		(158.4)
* 216.2	Adjustments to net surplus/deficit on the provision of services for non-cash movements	11	255.8
* (204.4)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	11	(165.6)
0.9	Taxation paid		0.5
(22.3)	**Net cash flows from operating activities**		**(67.7)**
(2.5)	Investing activities	12	141.0
(61.5)	Financing activities	13	53.4
(86.3)	**Net increase/(decrease) in cash or cash equivalents**		**126.7**
137.4	Cash and cash equivalents at the beginning of the reporting period		51.1
51.1	**Cash and cash equivalents at the end of the reporting period**		**177.8**

* 2015/16 restated

Notes supporting the group accounts

Note 1 - General notes to the financial statements

Where figures in the group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes to the accounts give information on the areas that have materially changed on consolidation of the group entities into the Council's accounts.

Note 2 - Group accounting policies

The accounting policies of the Council's subsidiary company have been aligned with the Council's accounting policies.

The subsidiaries of Lancashire County Developments (Property) Limited and Lancashire County Developments (Investments) Limited are consolidated into the group accounts of Lancashire County Developments Limited.

Lancashire County Developments Limited has been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and Lancashire County Developments Limited. 100% of all balances and transactions are consolidated, with the minority interest recognised as an unusable reserve in the group balance sheet. To avoid overstating the figures within the group financial statements, all inter-group transactions and balances between the Council and Lancashire County Developments have been eliminated.

Lancashire County Developments Limited has the same reporting date as the Council. Year end accounts to 31 March 2017 have been used for consolidation.

Note 3 - Entities not consolidated

Details of the Council's relationships with other entities are outlined below:

An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

Company	Interest	Relationship	
Global Renewables Lancashire Operations Limited	87.5%	Subsidiary	Not material
Marketing Lancashire Limited	100%	Subsidiary	Not material
Lancashire Enterprise Partnership Limited	100%	Subsidiary	Not material
Lancashire Workforce Development Partnership Limited	100%	Subsidiary	Not material
Lancashire Sport Partnership Limited	100%	Subsidiary	Not material
Local Pensions Partnership Limited	50%	Joint venture	Not material
Lancashire Partnership Against Crime Limited	25%	Associate	Not material
Lancashire Environmental Fund Limited	25%	Associate	Not material

Note 4 - Entities consolidated

Lancashire County Developments Limited is the only body to be consolidated into the Council's group accounts.

Lancashire County Developments Limited

Company registration number: 01624144

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

Lancashire County Developments Limited (LCDL) acts as an economic and employment 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, with the other 2 members of the company (Blackburn with Darwen Borough Council and Blackpool Borough Council) having 10% of voting rights each. It is classed as a subsidiary of the County Council.

County Councillors have been appointed as directors on the board. The 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.
Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited - owns and manages three commercial estates in Lancashire;

- Lancashire County Developments (Investments) Limited - has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and growth;
- Lancashire Enterprises (Investments) Limited - dormant company.

Note 5 - Group fees payable to auditors

2015/16		2016/17
£000		£000
	Fees in respect of Lancashire County Council	
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
8	Fees incurred for other audit work undertaken by Grant Thornton	11
4	Fees payable in respect of other services provided by Grant Thornton during the year	0
125	**Total fees for Lancashire County Council**	**124**
	Fees in respect of Lancashire County Developments Limited	
30	Fees incurred with regard to external audit services provided by Grant Thornton	0
0	Fees incurred with regard to external audit services provided by Beever and Struthers	31
20	Fees payable in respect of other services provided by Grant Thornton during the year	0
0	Fees payable in respect of other services provided by Beever and Struthers during the year	9
50	**Total fees for Lancashire County Developments Limited**	**40**
175	**Total**	**164**

Note 6 - Group taxation

Taxation expenses are only applicable to subsidiary company of Lancashire County Council.

31 March 2016		31 March 2017
£m		£m
0.9	Deferred tax: origination and reversal of timing differences	0.5
0.9	**Total deferred tax**	**0.5**
0.9	**Taxation on profit on ordinary activities**	**0.5**

Factors affecting the tax charge for the year

The tax assessed for the year is £0.5 million. The standard rate of corporation tax in the UK is 20%. The differences are explained below:

Restated 31 March 2016		31 March 2017
£m		£m
5.7	**Profit on ordinary activities before taxation**	**2.8**
1.1	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	0.5
	Effect of:	
0.1	Fixed asset differences	0.1
(1.0)	Tax on fair value movements	(0.7)
0.9	Capital gains	0.6
(0.3)	Other differences leading to a decrease in the tax charge	(0.2)
0.1	Deferred tax not recognised	0.2
0.9	**Tax charge for year**	**0.5**

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2015	Transfers out 2015/16	Transfers in 2015/16	Restated Balance at 31 March 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 March 2017
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the Council	**(424.7)**	**225.7**	**(201.7)**	**(400.7)**	**168.2**	**(110.7)**	**(343.2)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account *	(19.2)	0.0	0	(19.2)	0.8	0	(18.4)
Total revenue and capital reserves of the subsidiary	**(27.9)**	**0.0**	**0**	**(27.9)**	**0.8**	**0**	**(27.1)**
Total reserves	**(452.6)**	**225.7**	**(201.7)**	**(428.6)**	**169.0**	**(110.7)**	**(370.3)**

* 2015/16 restated

Note 8 – Group investment properties

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Restated 31 March 2016		31 March 2017
£m		£m
* (3.3)	Rental Income from investment property	(3.5)
1.9	Direct operating expenses arising from investment property	2.1
(1.4)	**Total**	**(1.4)**

* 2015/16 restated

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The following table summarises the movement in the value of investment properties over the year.

Restated 31 March 2016		31 March 2017
£m		£m
38.1	**Balance as at 1 April**	**45.0**
2.6	Additions	0
(0.6)	Disposals	(0.4)
* 4.9	Net gains/(losses) from fair value adjustments	1.6
45.0	**Balance as at 31 March**	**46.2**

* 2015/16 restated

Fair value hierarchy

Details of the Council's investment properties and information about the fair value hierarchy are as follows.

Restated 31 March 2016				31 March 2017	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
4.4	4.4	Residential properties	2	2.0	2.0
* 40.6	40.6	Commercial units	2	44.2	44.2
45.0	**45.0**	**Total**		**46.2**	**46.2**

* 2015/16 restated

Significant observable inputs – level 2

The fair value for the investment properties (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at level 2 in the fair value hierarchy.

The fair value for the commercial units (at market rents) have been valued by Cushman and Wakefield commercial real estate agents in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance – Applications and United Kingdom Valuation Standards contained within the RICS Valuation - Professional Standards 2014, (Red Book). It follows that the valuations are compliant with International Valuation Standards.

Note 9 - Deferred taxation

Taxation expenses are only applicable to subsidiary company of Lancashire County Council. The deferred taxation balance consists of accelerated capital allowances.

Restated 31 March 2016		31 March 2017
£m		£m
0.7	**Balance as at 1 April**	**1.5**
0.8	Charge for the year	0.5
1.5	**Balance as at 31 March**	**2.0**

2015/16 restated based on final audited accounts

Note 10 - Group reserves

The total usable reserves are shown in the table below:

2015/16		2016/17
£m		£m
(36.0)	County fund	(36.0)
(278.6)	Earmarked reserves	(227.9)
(86.0)	School reserves	(79.2)
(0.1)	Capital funding reserve	(0.1)
(400.7)	**Total earmarked reserves of the Council**	**(343.2)**
(64.6)	Capital grants unapplied reserve	(73.2)
(17.7)	Usable capital receipts	(22.8)
(483.0)	**Total usable reserves of the Council**	**(439.2)**
(27.9)	Usable reserves of the subsidiary	(27.1)
(510.9)	**Total usable reserves of the Group**	**(466.3)**

The table below shows the Council's unusable reserves:

Restated 31 March 2016		31 March 2017
£m		£m
8.8	Available for sale financial instruments reserve	7.7
45.0	Financial instruments adjustment account	41.7
(724.9)	Revaluation reserve	(750.7)
(1,047.5)	Capital adjustment account	(976.5)
1,049.9	Pensions reserve	1,331.1
(3.5)	Collection fund adjustment account	(9.7)
23.2	Accumulated absences adjustment account	26.7
(649.0)	**Total unusable reserves of the Authority**	**(329.7)**
* (14.4)	Revaluation reserve for subsidiary	(17.5)
(663.4)	**Total group unusable reserves**	**(347.2)**

* 2015/16 restated

The revaluation reserve for the subsidiary is detailed below.

Restated 31 March 2016 £m		31 March 2017 £m
* (10.4)	Balance as at 1 April	(14.4)
* (4.9)	Upward revaluation of assets	(3.6)
* 0.9	Deferred taxation	0.5
* (4.0)	(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(3.1)
* (14.4)	Balance as at 31 March	(17.5)

* 2015/16 restated

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

31 March 2016 £m		31 March 2017 £m
(28.5)	Interest received	(35.0)
35.1	Interest paid	34.5

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

Restated 31 March 2016 £m		31 March 2017 £m
43.5	Depreciation	46.9
117.5	Impairment and downward valuations	160.7
3.3	Amortisation of intangible assets	5.1
(7.0)	Increase/(decrease) in provision for bad debts	(1.2)
* (2.6)	Increase/(decrease) in creditors	7.4
* 19.9	(Increase)/decrease in debtors	(3.5)
0.3	(Increase)/decrease in inventories	(0.8)
40.4	Movement in pension liability	38.0
4.7	Carrying amount of non-current assets sold	11.5
* (3.8)	Other non-cash items charged to the surplus or deficit on the provision of services	(8.3)
216.2	Total	255.8

* 2015/16 restated

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

31 March 2016 £m		31 March 2017 £m
(16.0)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(24.7)
(11.2)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8.7)
(177.2)	Capital grants credited to the surplus on the provision of services	(132.2)
(204.4)	**Total**	**(165.6)**

Note 12 - Group cash flows from investing activities

31 March 2016 £m		31 March 2017 £m
(159.4)	Purchase of property, plant and equipment, investment property and intangible assets	(161.5)
(6,282.3)	Purchase of short term and long term investments	(8,409.9)
0	Other payments for investing activities	(17.5)
6.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13.9
6,237.4	Proceeds from the sale of short term and long term investments	8,581.0
195.3	Other capital grants and receipts from investing activities	135.0
(2.5)	**Net cash flows from investing activities**	**141.0**

Note 13 - Group cash flows from financing activities

31 March 2016 £m		31 March 2017 £m
1,104.2	Cash receipts from short term and long term borrowing	1,058.7
2.9	Appropriate to/from collection fund adjustment account	(6.2)
(1,163.9)	Repayment of short term and long term borrowing	(993.4)
(4.7)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.7)
(61.5)	**Net cash flows from financing activities**	**53.4**

Note 14 – Prior period adjustments

The following adjustments have been made to the 2015/16 accounts for Lancashire County Developments Limited:

Long term loans

Long term loans of £4 million were incorrectly classified as long term debtors. These have been reclassified as £3 million - long term investments and £1 million - short term investments.

Revaluation reserve

Financial Reporting Standard (FRS) 102 removed the requirement for the revaluation reserve which held the revaluation gains and losses. The group profit and loss reserve has been divided into a distributable profit element and non-distributable profit element that can only be realised once the investment properties are sold. This split between distributable and non-distributable profit has been reflected in the balance sheet.

Income

£0.5 million of income in respect of rates has been recognised as an adjustment to the 2015/16 profit and loss account.

Pension Fund Accounts

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 Director of Financial Resources, who is also the Director of Financial Resources 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 Director of Financial Resources to the Pension Fund

The Director of Financial Resources 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 Director of Financial Resources 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 Director of Financial Resources 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.

Pension fund accounts

The Statement of Accounts relate to the financial year ended 31 March 2017 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.

N Kissock

Neil Kissock
Director of Financial Resources
31 July 2017

LANCASHIRE COUNTY PENSION FUND - ANNUAL GOVERNANCE STATEMENT 2016/17

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 March 2017 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 167,309 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

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

The Pension Fund's Responsibilities

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

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

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

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the principles that should underpin the governance of each local authority.

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 2017.

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. Both the Fund and Local Pensions Partnership (LPP) have Strategic Plans which are incorporated into annual service plans for the various teams.

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. Many of these functions are now performed under contract by LPP and the Strategic Plan forms part of their business objectives. The overall strategic plan will continue to be monitored by the Head of Fund

Reports on the performance of the Investment Strategy 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.

The administration service is now undertaken by LPP. As part of its responsibility for the Governance of the Fund the Pension Fund Committee are responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPP. This includes amongst other things, performance against the Key performance indicators set out in the legal agreements.

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.

Much of the investment and administration functions are to be performed by LPP. These are to be provided in accordance with several legal agreements between Lancashire County Council and LPP and are to be undertaken in accordance of decisions made by the Pension Fund Committee. 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 the Head of Fund are defined in the Governance Policy Statement and more widely 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, was reviewed in 2015/16 as part of the production and approval of the new governance policy. Revisions were made 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.

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 progress on the Fund's risk register especially in light of the relationship with LPP is subject to regular reports to the Committee. The work on risk is increasing the awareness of risk in various contexts including:

- Investment and Funding Risk
- Member risk
- Operational risk
- Transition risk

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 pension's 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 either the Fund's or LPP's custodian. LPP is a FCA registered company and therefore has to follow strict rules over compliance and has a compliance Team which is independent from the Investment Management.

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.

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.
- An annual members meeting focussed on the performance of the fund.

- 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 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. The main arrangement which involves the pension fund is LPP. This is a collaboration with the London Pensions Fund Authority with Lancashire County Council holding half of the shareholding in the company. 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, 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. The responsibility for fulfilling the County Council's functions as administering authority rests with the Head of 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 Head of the Pension Fund who are 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 2016/17 were:

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.

- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.

- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.

- A review of the effectiveness of the Local Pensions Board.

- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

The Committee has overseen each of these processes and has continued the Governance arrangements whereby it will delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the Pension Fund Committee which are set out in the Governance Policy Statement.

The Investment Panel ensures that the Investment Strategy is delivered and that performance is in line with expectations. The Panel is chaired by the Head of the Pension Fund and includes the

Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee and it submits a quarterly report to the 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 Director of Governance, Finance 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 Head of Internal Audit who is managerially accountable to the Director of Legal and Democratic services. The Head of Internal Audit 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 Head of Internal Audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2016/17 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 2017/18

The following specific actions are proposed for completion during 2017/18.

- To support the new Committee especially by providing appropriate training for new members.
- Review and amend as necessary the Terminations Policy.
- To produce a new 3 year Strategic Plan.
- The Investment Panel undertake a full review of the Fund's investment strategy following the triennial funding valuation.

E Pope

County Councillor Eddie Pope
Chair of the Pension Fund Committee

A Leech

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Date: 30 June 2017

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

We have audited the pension fund financial statements of Lancashire County Pension Fund ("the pension fund") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2016/17.

This report is made solely to the members of Lancashire County Council "the Authority", as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Director of Financial Resources and auditor

As explained more fully in the Statement of Responsibilities, the Director of Financial Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Financial Resources; and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts 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 financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Karen Murray

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
4 Hardman Square
Spinningfields
Manchester
M3 3EB

10 August 2017

LANCASHIRE COUNTY PENSION FUND

Fund account

2015/16 £m		Note	2016/17 £m
	Dealing with members, employers and others directly involved in the Fund		
238.6	Contributions	6	245.5
5.5	Transfers in from other pension funds	7	10.9
244.1			**256.4**
(245.8)	Benefits	8	(261.1)
(12.5)	Payments to and on account of leavers	9	(15.7)
(258.3)			**(276.8)**
(14.2)	**Net withdrawals from dealings with members**		**(20.4)**
(45.3)	Management expenses	10	(49.6)
(59.5)	**Net withdrawals including fund management expenses**		**(70.0)**
	Returns on investments		
99.1	Investment income	11	109.9
165.9	Profit and losses on disposal of investments and changes in the market value of investments	14	1,133.2
265.0	**Net return on investments**		**1,243.1**
205.5	**Net increase / (decrease) in the net assets available for benefits during the year**		**1,173.1**
5,830.7	**Opening net assets of the scheme**		**6,036.2**
6,036.2	**Closing net assets of the scheme**		**7,209.3**

Net assets statement as at 31 March 2017

31 March 2016		Note	31 March 2017
£m			£m
6,108.0	Investment assets	14	7,135.1
210.3	Cash deposits	14	56.3
(291.0)	Investment liabilities	14	0
6,027.3	**Total net investments**		**7,191.4**
27.7	Current assets	20	30.7
(18.8)	Current liabilities	21	(12.8)
6,036.2	**Net assets of the Fund available to fund benefits at the period end**		**7,209.3**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 26.

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 2017 and its income and expenditure for the year then ended.

N Kissock

A Schofield

Neil Kissock
Director of Financial Resources

County Councillor Alan Schofield
Chair of 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 2016/17 cash inflows during the year were £366.3 million and cash outflows were £326.4 million, representing a net cash inflow of £39.9 million (compared with an inflow of £39.6 million in the previous year). Benefits payable amounted to £261.1 million and were offset by net investment income of £109.9 million, contributions of £245.5 million and transfers in of £10.9 million.

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 2016/17 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 2016.

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 reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at Your Pension Service - Lancashire Fund Information

The investments of the Fund are managed by external investment managers, including the Local Pensions Partnership (LPP), a joint venture established with effect from 8 April 2016 and owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP manages the administration and investment functions on behalf of the two partner authorities.

The administration and investment management staff involved in the operation of the two funds transferred to the new organisation on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April 2016.

1.2 Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. 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 413 employer organisations (2015/16: 369 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 287 have active members (2015/16: 261) as detailed below:

31 March 2016	Lancashire County Pension Fund	31 March 2017
369	Total number of employers	413
261	Number of employers with active members	287
	Number of active scheme members	
27,106	County Council	26,416
29,223	Other employers	29,499
56,329	**Total**	**55,915**
	Number of pensioners	
22,414	County Council	23,141
22,093	Other employers	23,012
44,507	**Total**	**46,153**
	Number of deferred pensioners	
33,253	County Council	34,668
28,377	Other employers	30,573
61,630	**Total**	**65,241**
162,466	**Total membership**	**167,309**

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 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008	Service post 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2016/17* 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 26 to these accounts.

2.1 Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2017 but not yet adopted by the Code.

The Fund has adopted CIPFA guidance on management expenses since 2014/15 when the guidance was introduced. The *2017/18 Code* is expected to mandate the current guidance and no material change to the Fund accounts is expected.

The Fund provides a breakdown of pension fund management expenses across three categories: investment management expenses, pension scheme administration costs and oversight and governance expenses. This information can be found in note 10 and further information is provided in accounting policies 3.2.3 to 3.2.6.

The *2017/18 Code of Practice* will also amend the reporting of investment asset concentration for pension funds and will require disclosure of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security. This is consistent with the approach taken in the *Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015'*. No material impact on the accounts of the Fund is expected.

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. Member contributions are in accordance with the LGPS Regulations 2013 and employer contributions are 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. Any receipts in advance are accounted for as accrued income.

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 2013.

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 its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

- 3.2.4 – Administrative expenses
- 3.2.5 – Oversight and governance costs
- 3.2.6 – Investment management expenses

3.2.4 Administrative expenses

Administration expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

3.2.5 Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the pensions committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

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

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers, Local Pensions Partnership 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 with a number of managers that an element of their fee be performance related.

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 2016/17, £7.1m of fees is based on such estimates (2015/16: £4.7m).

3.3 Net assets statement

3.3.1 Financial assets

Financial assets 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 in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

3.3.2 Freehold and leasehold properties

The properties were valued at open market value at 31 March 2017 by independent property valuers GVA Grimley Limited in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.3 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.

3.3.4 Derivatives

The Fund has used derivative financial instruments to manage its exposure to specific risks arising from its investment activities. These have been valued using appropriate market information. The Fund does not hold derivatives as at 31 March 2017. Derivatives were previously held in relation to the equity portfolio which is no longer a direct investment of the Fund. Any derivatives in respect of the pooled equity investments will sit within the pools and are not recorded as separate assets or liabilities of the Fund.

Until the transition of equities to the LPPI Global Equity Fund, derivative contract assets were fair valued at bid prices and liabilities were fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

As at 31 March 2016, the future value of forward currency contracts was 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.

3.3.5 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.

3.3.6 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.

3.3.7 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.

3.3.8 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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 26).

3.3.9 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(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 19).

3.3.10 Securities lending

During the year, all equities were transitioned into the LPP Global Equities Pool. Securities lending by Northern Trust, the Fund's custodian, effectively ended on transition. Until this date, Northern Trust were authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity.

Any income from securities lending within the LPP Global Equities Pool will be reinvested within the pool.

Note 13 provides details of stock lending income and average on loan value during the period to transition of equities.

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 the International Private Equity and Venture Capital Valuation Guidelines 2012.

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 26. 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 net assets statement at 31 March 2017 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 the International Private Equity and Venture Capital Valuation Guidelines 2012 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 £1,421.8 m. 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 (excluding the loan to Heylo Housing listed separately below) totals £1,591.6m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans 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 loans to Heylo Housing totals £138.6m 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 £99.4m. 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 £450 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £150 million and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £240 million.

6. CONTRIBUTIONS RECEIVABLE

2015/16		2016/17
£m	**By category**	**£m**
54.9	Members	55.5
	Employers:	
122.4	Normal contributions	124.5
49.0	Deficit recovery contributions	48.5
12.3	Augmentation contributions	17.0
183.7	Total employers contributions	190.0
238.6		**245.5**
	By authority	
104.2	County Council	109.5
113.2	Scheduled bodies	114.7
21.2	Admitted bodies	21.3
238.6		**245.5**

Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2016/17, £0.3m is voluntary and additional regular contributions (2015/16: £0.4m).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£m		£m
5.5	Individual transfers in from other schemes	10.9
5.5		**10.9**

8. BENEFITS PAYABLE

2015/16		2016/17
£m	**By category**	£m
200.2	Pensions	207.3
40.5	Commutation and lump sum retirement benefits	48.2
5.1	Lump sum death benefits	5.6
245.8		**261.1**
	By authority	
107.2	County Council	113.3
120.4	Scheduled bodies	128.6
18.2	Admitted bodies	19.2
245.8		**261.1**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£m		£m
0.7	Refunds to members leaving service	0.7
11.2	Individual transfers	14.4
0.6	Group transfers	0.6
12.5		**15.7**

10. MANAGEMENT EXPENSES

2015/16		2016/17
£m		£m
4.1	Fund administrative costs	3.2
32.5	Investment management expenses[1]	42.7
8.7	Oversight and governance costs[2]	3.7
45.3		**49.6**

[1] Included within investment management expenses for the year ended 31 March 2017 are costs of the transition of equities to the LPP Global Equities Fund, paid to the transition manager and amounting to £2.0m.

[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2015/16: £34,169)

10.1 Investment management expenses

2015/16		2016/17
£m		£m
1.5	Transaction costs	1.6
27.9	Fund value based management fees[1]	31.8
0	Cost of global equities transition	2.0
2.9	Performance related fees	7.1
0.2	Custody fees	0.2
32.5		**42.7**

[1] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA 2016 guidance on accounting for local government pension scheme management expenses. Fees are charged as a percentage of the value of assets held by each manager.

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

2015/16		2016/17
£m		£m
3.3	Fixed interest securities	1.4
41.6	Equity dividends	32.0
1.1	Index linked securities	1.5
15.2	Pooled investment vehicles	34.1
7.1	Pooled property investments	11.2
29.2	Net rents from properties	28.2
0.5	Interest on cash deposits	0.7
1.1	Other	0.8
99.1	**Total before taxes**	**109.9**

12. PROPERTY INCOME

2015/16		2016/17
£m		£m
32.3	Rental income	31.3
(3.1)	Direct operating expenses	(3.1)
29.2	**Net income**	**28.2**

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 by Northern Trust ceased when all directly held equities were transitioned into the LPP Global Equities Pool. Stock lending income to the date of transition was £0.8m (2015/16: £1.5m). There were no directly held securities on loan at 31 March 2017. The average on loan value, wholly comprised of equities, for the period to transition was £67.8m. Assets on loan at 31 March 2016 consisted of £76.2m equities.

Any income from securities lending within the LPP Global Equities Pool will be reinvested within the pool.

14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2016/17

	Market value as at 1 April 2016	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value[3]	Market value as at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	123.1	189.5	(190.5)	10.1	132.2
Equities[1]	2,069.9	1,867.8	(4,358.0)	420.3	0
Index linked securities	63.7	125.1	(66.7)	5.0	127.1
Pooled investment vehicles[2]	2,855.0	3,396.3	(780.0)	665.4	6,136.7
Pooled property investments[2]	80.6	13.2	0.0	5.6	99.4
Direct property	608.1	95.2	(104.5)	38.2	637.0
	5,800.4	**5,687.1**	**(5,499.7)**	**1,144.6**	**7,132.4**
Derivatives contracts:					
Forward currency contracts asset value	294.5				0
Forward currency contracts liability value	(291.0)				0
Forward currency contracts	**3.5**	**47.7**	**(13.2)**	**(38.0)**	**0**
Other investment balances:					
Cash deposits	210.3				56.3
Investment accruals	13.1				2.7
Net investment assets	**6,027.3**				**7,191.4**

[1] All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.

[2] The value of pooled property investments was previously included within total pooled investment vehicles. Pooled investment vehicles includes the LPP Global Equities Pool.

[3] The change in market value of net investment assets disclosed above is included in the total profit and loss on disposal of investments and change in market value of investments reported on the face of the Fund account. £1,133.2m on the face of the Fund account also includes profits and losses on disposals and the change in market value of derivative contracts.

2015/16

	Market value as at 1 April 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value as at 31 March 2016
	£m	£m	£m	£m	£m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities[1]	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles[2]	2,697.1	918.5	(842.6)	82.0	2,855.0
Pooled property investments[2]	43.0	31.9	0	5.7	80.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,738.9	**2,380.7**	**(2,485.1)**	**165.9**	**5,800.4**
Derivative contracts:					
Forward currency contracts asset value	632.4				294.5
Forward currency contracts liability value	(629.6)				(291.0)
Forward currency contracts	**2.8**	**24.9**	**(12.6)**	**(11.6)**	**3.5**
Other investment balances:					
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Net investment assets	**5,813.5**				**6,027.3**

[1] All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.
[2] The value of pooled property investments was previously included within total pooled investment vehicles.

Investments analysed by fund manager

31 March 2016			31 March 2017	
£m	%		£m	%
Public equity				
733.3	12.1%	Baillie Gifford	0	0
350.1	5.8%	MFS	0	0
324.6	5.4%	Morgan Stanley	0	0
209.7	3.5%	NGAM	0	0
496.0	8.2%	Robeco	0	0
234.5	3.9%	AGF	0	0
251.2	4.2%	MFG (Magellan)	0	0
2,599.4	**43.1%**		**0**	**0**
Private equity				
336.5	5.6%	Capital Dynamics	452.7	6.3%
11.7	0.2%	Standard Life	28.2	0.4%
348.2	**5.8%**		**480.9**	**6.7%**
Long term credit investments				
56.0	0.9%	Ares Institutional	0	0
74.5	1.2%	Babson	0	0
73.0	1.2%	Hayfin	52.4	0.7%
0.0	0.0%	Highbridge	0.0	0.0%
4.9	0.1%	Kreos	33.8	0.5%
5.9	0.1%	Muzinich Private Debt Fund	17.6	0.2%
47.3	0.8%	Permira Credit Solutions	76.6	1.1%
57.0	0.9%	THL	0	0
18.4	0.3%	White Oak	68.8	1.0%
83.6	1.4%	Heylo Housing	138.6	1.9%
214.6	3.5%	Prima	256.8	3.6%
83.0	1.4%	Venn Commercial Real Estate	83.7	1.2%
11.4	0.2%	Westmill	10.9	0.2%
125.0	2.1%	Bluebay	132.5	1.8%
60.0	1.0%	HSBC	71.5	1.0%
83.1	1.4%	Investec	101.7	1.4%
134.0	2.2%	Pictet	159.6	2.2%
89.2	1.5%	CRC	152.5	2.1%
53.0	0.9%	EQT	51.2	0.7%
109.9	1.8%	MFO King Street	128.4	1.8%

52.4	0.9%	Monarch	67.0	0.9%
54.0	0.9%	Neuberger Berman	61.9	0.9%
47.6	0.8%	Pimco Bravo	64.8	0.9%
1,537.8	**25.5%**		**1,730.2**	**24.1%**
Liquid credit (cash and bonds)				
283.8	4.7%	Local Pensions Partnership and LCC Treasury Management	135.2	1.9%
283.8	**4.7%**		**135.2**	**1.9%**
Global equity funds				
0	0	Local Pensions Partnership	3,168.2	44.1%
0	0		**3,168.2**	**44.1%**
Infrastructure				
62.6	1.0%	Arclight Energy	95.7	1.3%
66.4	1.1%	Capital Dynamics Cape Byron	85.7	1.2%
31.7	0.5%	Capital Dynamics Clean Energy	31.1	0.4%
76.0	1.3%	Capital Dynamics Red Rose	60.5	0.8%
0.7	0.0%	Capital Dynamics US Solar	0	0
9.6	0.2%	EQT Infrastructure	26.6	0.4%
34.3	0.6%	Global Infrastructure Partners	60.3	0.8%
70.4	1.1%	Guild Investments Ltd	130.1	1.8%
0.0	0.0%	GLIL Infrastructure	42.6	0.6%
35.2	0.6%	Highstar Capital	61.5	0.9%
34.0	0.6%	Icon Infrastructure	69.8	1.0%
7.5	0.1%	ISQ Global Infrastructure	101.3	1.4%
135.9	2.3%	Madrilena Red de Gas (MRG)	146.6	2.0%
5.2	0.1%	Stonepeak Infrastructure	28.9	0.4%
569.5	**9.5%**		**940.6**	**13.1%**
Property				
608.1	10.1%	Knight Frank	637.0	8.9%
30.4	0.5%	Gatefold Hayes	33.4	0.5%
14.0	0.2%	Kames Target	25.0	0.4%
36.1	0.6%	M&G Europe fund	41.0	0.6%
688.6	**11.4%**		**736.4**	**10.2%**
6,027.3	**100.0%**		**7,191.4**	**100.0%**

Fixed interest securities

31 March 2016 £m		31 March 2017 £m
85.3	UK corporate bonds quoted	20.9
0.0	Overseas public sector	13.6
37.8	Overseas corporate bonds quoted	97.7
123.1		**132.2**

Equities

31 March 2016 £m		31 March 2017 £m
191.3	UK quoted	0
1,878.6	Overseas quoted	0
2,069.9		**0**

Index linked securities

31 March 2016 £m		31 March 2017 £m
63.7	UK quoted	127.1
63.7		**127.1**

Direct property investments

31 March 2016 £m		31 March 2017 £m
515.7	UK – freehold	538.8
92.4	UK – long leasehold	98.2
608.1		**637.0**

Pooled investment vehicles

31 March 2016		31 March 2017
£m	UK managed funds:	£m
60.0	Fixed income funds	71.5
88.6	Private equity	79.5
107.7	Infrastructure	136.1
173.1	Long term credit investments	189.6
44.5	Property funds	58.3
	Overseas managed funds:	
1,097.3	Fixed income funds	1,125.1
259.6	Private equity	401.4
461.8	Infrastructure	761.8
120.6	Long term credit investments	204.1
485.7	Equity funds	3,168.2
0.6	Cash funds	0.0
36.1	Property funds	41.0
2,935.6		**6,236.1**

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 March 2016		31 March 2017
£m		£m
531.4	**Opening balance**	**608.1**
	Additions:	
66.4	Purchases	27.6
15.7	New construction	23.1
2.3	Subsequent expenditure	44.5
(52.6)	Disposals	(104.5)
44.9	Net increase in market value	38.2
608.1	**Closing balance**	**637.0**

Comparatives as at 31 March 2016 have been restated to disclose new construction and subsequent expenditure separately rather than include within the purchases figure.

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

2015/16		2016/17
£m		£m
29.5	Leases expiring in the following year	32.3
87.0	Leases expiring in 2 to 5 years	101.5
87.6	Leases expiring after 5 years	106.0
204.1	**Total future minimum lease payments receivable under existing non-cancellable leases**	**239.8**

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.

Cash deposits

31 March 2016		31 March 2017
£m		£m
114.9	Sterling	18.2
95.4	Foreign currency	38.1
210.3		**56.3**

15. FINANCIAL INSTRUMENTS CLASSIFICATION

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. Directly held property is excluded from this note.

31 March 2017	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	132.2		
Index linked securities	127.1		
Pooled investment vehicles	6,136.8		
Pooled property investments	99.4		
Cash deposits		56.3	
Investment accruals	2.6		
Debtors		30.7	
Total financial assets	**6,498.1**	**87.0**	
Financial liabilities			
Creditors			12.8
Total financial liabilities			**12.8**

31 March 2016	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	123.1		
Equities	2,069.9		
Index linked securities	63.7		
Pooled investment vehicles	2,935.6		
Derivative contracts	294.5		
Cash deposits		210.3	
Investment accruals	13.1		
Debtors		27.7	
Total financial assets	**5,499.9**	**238.0**	
Financial liabilities			
Derivative contracts	291.0		
Creditors			18.8
Total financial liabilities	**291.0**		**18.8**

16. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain on financial assets at fair value through profit and loss was £1,133.2 (2015/16: £165.9m after adjusting for directly owned property).

17. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY

17.1 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

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, including those held in the LPP I Global Equity Fund 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 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.

17.1.4 Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the 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 March 2017	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,549.9	158.7	2,789.5	6,498.1
Non-financial assets at fair value through profit and loss (property holdings)	0	637.0	0	637.0
Net investment assets	**3,549.9**	**795.7**	**2,789.5**	**7,135.1**

31 March 2016*	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,341.1	245.6	1,913.2	5,499.9
Non-financial assets at fair value through profit and loss (property holdings)*	0	608.1	0	608.1
Financial liabilities at fair value through profit and loss	(291.0)	0	0	(291.0)
Net investment assets	**3,050.1**	**853.7**	**1,913.2**	**5,817.0**

* The information for 2015/16 has been restated from the audited 2015/16 accounts to include investments in directly held property as a result of changes to the Code.

17.1.5 Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Equity funds	Level 1	Unadjusted quoted bid market prices	Not required	Not required
Fixed income funds	Level 1	Unadjusted market values based on current yields	Not required	Not required
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation	Not required
Direct property holdings	Level 2	Valuation performed by independent professional valuers GVA Grimley in accordance with RICS valuation standards (9th edition)	Comparable recent market transactions on arms length terms; general changes in property market prices; rental growth; vacant properties	Not required

Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards	Unobservable fund net asset value	Ability to exit fund; market opinion; general market movements
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent	Discount rates, cash flow projections	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

17.1.6 Reconciliation of fair value measurements within level 3

	Financial assets at fair value through profit and loss
	£m
Market value 1 April 2016	**1,913.2**
Purchases during the year and derivative payments	878.4
Sales during the year and derivative receipts	(364.2)
Unrealised gains / (losses)	290.8
Realised gains / (losses)	71.3
Market value 31 March 2017	**2,789.5**

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 2016/17 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.4%
Total equities	9.6%
Alternatives	6.4%
Total property	2.4%

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 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,433.1	6.4%	1,524.8	1,341.4
Total equities	3,649.1	9.6%	3,999.4	3,298.8
Alternatives	1,313.8	6.4%	1,397.9	1,229.8
Total property	736.4	2.4%	746.7	726.1
Total assets available to pay benefits	**7,132.4**		**7,676.2**	**6,588.6**

Asset type	31 March 2016	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2016	Asset type	31 March 2017
£m		£m
210.3	Cash and cash equivalents	56.3
210.3	**Total**	**56.3**

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 100 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 100 basis points 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 March 2017	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	56.3	0.6	(0.6)
Total change in assets available	**56.3**	**0.6**	**0.6**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2016	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	210.3	2.1	(2.1)
Total change in assets available	**210.3**	**2.1**	**(2.1)**

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 2017 and as at the previous year end:

31 March 2016	Currency exposure – asset type	31 March 2017
£m		£m
850.9	Overseas bonds (including index linked)	1,071.4
2,622.9	Overseas equities	3,569.6
868.0	Overseas alternatives	1,101.9
36.1	Overseas property	41.0
4,377.9	**Total overseas assets**	**5,783.9**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1%.

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2015/16 6.1%).

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

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2017	**+6.1%**	**-6.1%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	1,071.4	3,787.3	3,351.8
Overseas equities	3,569.6	1,136.7	1,006.0
Overseas alternatives	1,101.9	1,169.1	1,034.6
Overseas property	41.0	43.5	38.5
Total change in assets available	**5,783.9**	**6,136.6**	**5,431.0**

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2016	**+6.1%**	**-6.1%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

18.6 Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £56.3m (31 March 2016: £210.3m.) This was held with the following institutions:

31 March 2016	Summary	Rating	31 March 2017
£m			£m
	Bank deposit accounts		
154.8	Northern Trust	A1+	47.9
55.4	Svenska Handelsbanken	A1+	8.4
	Bank current accounts		
0.1	NatWest	A3	0
210.3	**Total**		**56.3**

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 2017 are due within one year.

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

Members participating in 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 2016 to 31 March 2017 for Prudential and 1 September 2015 to 31 August 2016 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.8**	**22.0**	**22.8**
Income (incl. contributions, bonuses, interest & transfers in)	0.0	7.0	7.0
Expenditure (incl. benefits, transfers out & change in market value)	(0.1)	(4.7)	(4.8)
Value at the end of the year	**0.7**	**24.3**	**25.0**

20. CURRENT ASSETS

31 March 2016		31 March 2017
£m		£m
13.9	Contributions due – employers	14.1
4.6	Contributions due – members	4.6
9.2	Debtors	12.0
27.7		**30.7**

31 March 2016	Analysis of debtors	31 March 2017
£m		£m
14.9	Other local authorities	14.6
12.8	Other entities and individuals	16.1
27.7		**30.7**

21. CURRENT LIABILITIES

31 March 2016		31 March 2017
£m		£m
1.1	Unpaid benefits	5.7
17.7	Accrued expenses	7.1
18.8		**12.8**

31 March 2016	Analysis of creditors	31 March 2017
£m		£m
2.1	Other local authorities	5.0
16.7	Other entities and individuals	7.8
18.8		**12.8**

22. CONTRACTUAL COMMITMENTS

As at 31 March 2017 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 £663.4m (2016: £665.3m). 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 £390.7m (2016: £497.2m). 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 £24.6m (2016: £19.9m). These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £0.6m (2016: £13.8m). These amounts are expected to be drawn down over the next few months.

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.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

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 £0.4 m (2015/16: £3.7m) 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 £87.0m to the fund in 2016/17 (2015/16: £81.4m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2017 amount to £8.2m (2015/16: nil).

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2017 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2016/17 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2017.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

24. KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund are the Lancashire County Council Director of Financial Resources and the Head of Fund. Total remuneration payable to key management personnel is set out below:

2016/17	Employment period	Salary[1]	Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/16 – 31/03/17	52,175	6,664	58,839
Director of Financial Resources (Section 151 officer)	01/04/16 – 31/03/17	4,732	563	5,295

2015/16	Employment period	Salary[1]	Pension contributions[1]	Total including pension contributions[1]
		£	£	£
*Director of Lancashire Pension Fund	01/04/15 - 31/03/16	86,199	10,800	96,999
**Head of Fund	01/12/15 – 31/03/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/02/16 – 31/03/16	401	25	426
****Chief Investment Officer	01/04/15 - 31/03/16	120,150	13,230	133,380

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31 March 2016.

**The Head of Fund took up this new post on 1 December 2015

***The Director of Financial Resources was appointed on 29 February 2016. This position was previously held by an interim consultant.

****The Chief Investment Officer position transferred to the Local Pensions Partnership on 7 April 2016.

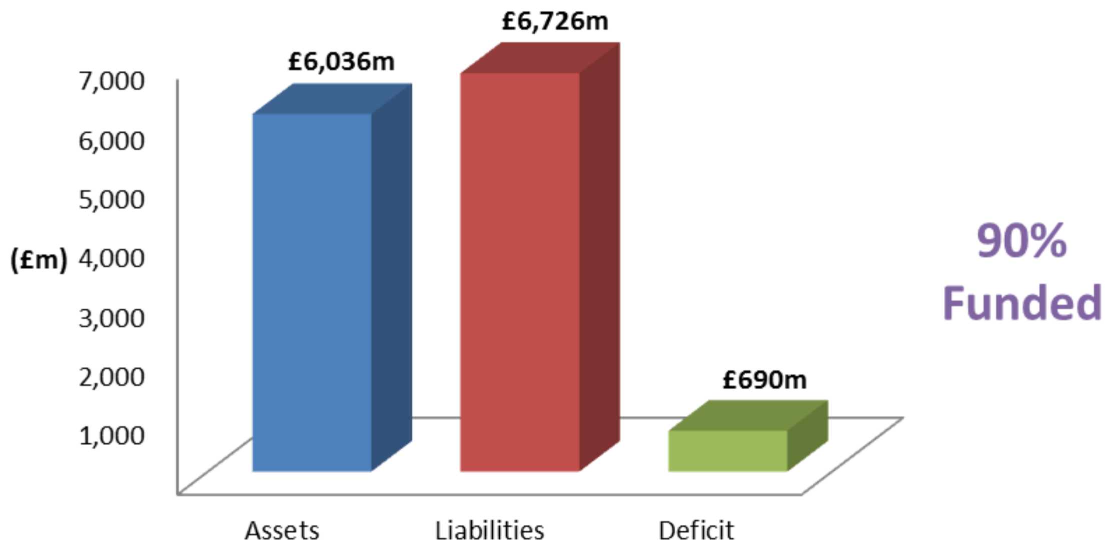
25. FUNDING ARRANGEMENTS

Accounts for the year ended 31 March 2017 - 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 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £41.5 million. The Secondary rate of the employer’s contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years’ contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

26. 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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint, which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £8,106 million. Interest over the year increased the liabilities by c£291million, and allowing for net benefits accrued/paid over the period also increased them by c£6 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,662 million made up of “actuarial losses” (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2017 is therefore £10,065 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

Governance Statements

THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT

Local authorities are required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement (AGS) which reviews the effectiveness of their system of internal control and to include this within their Statement of Accounts.

The Regulations stipulate that the AGS *must be prepared in accordance with proper practices in relation to accounts*" which requires the AGS to be in accordance with the Framework prepared by CIPFA/Solace "*Delivering Good Governance in Local Government*" (2016 edition). The Framework defines the principles that should underpin the governance of each local authority.

The AGS is a public statement of the extent to which a local authority complies with its Code of Governance, which is in turn consistent with the good governance principles set out in the Framework. The process of preparing the AGS is intended to add value to the effectiveness of the governance and internal control framework and is an opportunity to explain to the community and stakeholders how the controls that are in place manage the risks of failure in delivering outcomes; it should reflect the local authority's particular features and challenges.

In particular the AGS should include:

- How issues raised in the previous year's AGS have been resolved;
- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the local authority's Code of Governance;
- Reference to and assessment of the effectiveness of the key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment;
- An opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose;
- An agreed action plan showing actions taken, or proposed, to deal with significant governance issues; and
- A commitment to monitoring implementation as part of the next annual review.

GOVERNANCE ISSUES IN 2015/16

At its meeting held on 30 June 2016 the Audit and Governance Committee considered and approved the AGS for 2015/16 and at its meeting held on 26 September 2016 approved an updated version of the AGS for inclusion in the Council's Statement of Accounts.

The External Auditor's Annual Audit Letter for the year ended 31 March 2016 concluded that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness except for the following matters, resulting in the External Auditor's value for money conclusion being qualified:

- Ofsted inspection of Children's Services;
- The work of internal audit being insufficient to provide an opinion on the overall system of internal control at the Council.

Ofsted inspection of Children's Services

The following actions are a response to the findings and recommendations made by Ofsted in November 2015, through the cycle of subsequent Ofsted quarterly monitoring inspections and the Department for Education Improvement Notice. Full copies of these reports can be found using the following link:

Children's Services - monitoring and inspection reports

In November 2015 Ofsted published its report on the outcome of its inspection of Children's Services, rating the services overall as "inadequate". An Improvement Notice was subsequently issued by Ofsted and an Improvement Board established with an independent Chair, responsible for developing an Improvement Plan which was subsequently approved by the Department for Education.

The Improvement Board meets on a monthly basis to consider progress against the Improvement Plan. Having initially appointed an Interim Director of Children's Services, shared with Blackburn with Darwen Borough Council, a new full time Director of Children's Services was subsequently appointed.

In addition to the Improvement Board, the Council has established a Children's Services Scrutiny Committee and a 0-25 Board. The 0-25 Programme Board brings together the different strands of improvement work taking place right across children's services. It focusses on significant change activity across the service and includes Children's Social Care, Wellbeing, Prevention and Early Help, Residential and Fostering and Special Educational Needs and Disabilities. Significant extra resources for Children's Services have been agreed by the Council's Management Team.

Since the judgement as inadequate by Ofsted in autumn 2015, there has been a strong commitment to improve services quickly and to ensure that children are safe, protected and supported.

A significant range of activity has been implemented and will continue to be built upon until practice is consistently good and outcomes for children are improved. Below is a high level summary of some of the work that has been undertaken since the last AGS to improve services for vulnerable children in Lancashire.

Strategic direction, leadership, governance and oversight

- **Permanent Director of Children's Services Appointment** – Amanda Hatton has now been in post since February 2017. Linda Clegg continued in her role in Lancashire to the end of March to ensure a seamless transition of responsibilities and is now working one day per week to provide additional leadership capacity.
- **12 Week Improvement Plan** – the Council's approach is to focus on short term priorities delivered at pace. The fourth 12 week plan has been agreed by the Improvement Board and will prioritise support for Children Looked After and care leavers.

Demand management and sufficiency

- **Resource Panels –** have been established in each locality since February 2017. Chaired by social care Heads of Services, the panels consider all new placement decisions, placement changes and placements due for review to ensure a consistency of approach and appropriate challenge to decision making.
- **Access to Resources Team –** the team has been in place since February 2017 and provides capacity in terms of placement finding, placement costs, effective commissioning and market management.

- **Reshaping the in house provision –** piloting a four bed Adolescent Support Unit to provide respite/short breaks for teenagers on the edge of care, alongside crisis units and complex needs units.
- **Residential Outreach** – recently agreed to increase capacity of this team to specifically support young people based in external placements and those children looked after under section 20 of the Children Act 1989 where the Council's duty is to provide a child with somewhere to live because the child does not have a home, or a safe home.
- **Family Group Conferencing –** exploring proposals to increase Family Group Conferencing (FGC) capacity, building on an existing FGC team with a strong track record in achieving improved outcomes for children and families.

Participation and recognition

- **PROUD Awards** – this annual celebration/recognition event was held on 3 March 2017 for Children Looked After and Care Leavers who received awards for their achievements from the Chief Executive, elected members and senior leaders.
- **LINX (Children in Our Care Council)** – have recently inspected in-house children's homes Grange Avenue and Eden Bridge and also the central fostering team. Through LINX the young inspectors have also been involved in Child Sexual Exploitation (CSE) prevention week, inspected a real CSE case and reported back to the police their findings.
- **Takeover 2016** - in November over 140 children and young people took part in our annual Takeover month event which originated here in Lancashire. Highlights included young people 'taking over' the Improvement Board, a Takeover meeting with the Children's Commissioner Anne Longford and our annual CSE conference.
- **Participation awards** – children and young people supported by the County Council have won three of the four awards on offer at the national British Youth Council Awards. The Inspiring Project Award – won jointly by the Fostering and Adoption team and the Children with Disabilities Council; the Make a Difference Award - won by Will Rainford and the Youth-led Award – won by LINX, the Children in Care Council.
- **Diana Award** - 20 members of LINX and POWAR were awarded a prestigious Diana award for their work in the community with Young Inspectors. POWAR is Lancashire County Council's participation group for children and young people with special educational needs and disabilities. The group was recognised for their commitment to making a change for the

better in organisations that provide a service to children and young people in care and/or with special educational needs and disabilities.

Workforce recruitment, retention and development

- **Risk sensible** – a "risk sensible" model, that assesses risk rather than simply seeking to avoid it entirely, continues to be implemented and over 250 staff have now been trained. Plans are now also in place to train staff in the Wellbeing, Prevention and Early Help service. Partner organisations are also interested in understanding and practicing in line with the risk sensible approach. Funding has been agreed by the Lancashire Safeguarding Children Board (LSCB) to facilitate this.
- **Recruitment drive** - a recruitment campaign has been ongoing since the summer 2016 and has been successful in recruiting to various roles in children's services. To date more than 188 permanent posts have been filled including social workers, team managers and independent reviewing officers.
- **Workforce Strategy** – at the April 2017 Improvement Board a two year workforce strategy was agreed. Within this a number of developments will be progressed including the establishment of a social work academy, a health and wellbeing strategy, improved support and training for managers and clear career pathways. The areas of Fylde, Wyre and Lancaster will provide a specific focus for this work given the particular recruitment and retention difficulties in the north of the county. A comprehensive performance dashboard is being established and targets set that will be monitored through the Operational Improvement Group.
- **Aide Memoires** – the Operational Improvement Group produced a simple guide to some of the core tasks that social workers undertake. The purpose of the guide was to describe these tasks in a simple and straight forward way but also to articulate why these tasks are undertaken. The original intention was that the aide memoires would be a useful reference tool for newly qualified social workers but they have also proved useful for partners to understand social work practice and have been shared through the Lancashire Safeguarding Children Board (LSCB) and incorporated into the schools safeguarding training programme.

Capacity

- **Framework agreement** – Some of the work needed to bring about improvement meant taking resource away from normal duties as well as an anticipated level of demand change in this period acknowledging the possibility that referrals might increase in light of the inspection judgement. A number of steps were taken to help manage demand at this time, including the involvement of a social work agency called Skylakes. The experienced staff supplied by the agency picked up some of the cases that had been awaiting allocation as well as supporting the review of child in need cases. Skylakes are no longer taking on new work and assessments on behalf of children's social care and robust plans were implemented to ensure that the increased work coming into social care as Skylakes stepped back was effectively managed.
- **Child Sexual Exploitation –** the support provided to children at risk of sexual exploitation has been reviewed and through this some areas for improvement were identified. As a result a new approach has been implemented for working with these vulnerable children that is based on national research, inspection findings and effective practice in other local authorities. A multi-agency action plan has been agreed through the Lancashire Safeguarding Children Board (LSCB) to drive forward improvements and the County Council has invested an additional £600k to fund 19 new posts to support this plan.
- **Caseloads** - all parts of the social care workforce have shown reducing caseloads over the last few months. And these caseloads are now within the agreed thresholds that have been set by the Improvement Board as 'good' or 'outstanding'.
- **Front door** – the Contact and Referral Team (CART) responds to all referrals to Children's Social Care. An additional seven qualified social workers began working in CART in January 2017 to focus on 0–10 day statutory assessments. Further to this, a temporary resource of three qualified social workers and one business support worker has recently been agreed to address some identified issues at the front door regarding some cases experiencing delay and some cases not being appropriately signposted.

Communication and engagement

- Director of Children's Services (DCS) briefings – in April 2017 over 350 staff across children's services participated in the third round of staff briefings led jointly by Amanda Hatton and Linda Clegg. The purpose of these staff briefings is to ensure the workforce is fully aware and able to inform improvement and to share and discuss the key priorities moving forwards. The evaluation feedback from these briefings has been extremely positive and 95% reported a better understanding about the progress in delivering the improvement plan and 96% had a better understanding of our current and future priorities.

- **DCS Blog** – Amanda Hatton has recently begun sending out a weekly blog to all staff to highlight recent news, information and developments and keep people posted on what she has been doing.

Better understanding of ourselves

- **Project Accuracy** – after two waves of project activity since April 2016, significant improvement to the accuracy of information in the Lancashire Children's Services (LCS) system has been achieved. In March 2017, all of the metrics under review were measured by Practice Managers at 90% accurate or above. Staff from a consultancy company called Newton Europe have spent time with colleagues across the service to review processes. There has been an effective project handover from Newton Europe to the County Council and a Performance Management Framework has been agreed and implemented and weekly/monthly reports are made available to inform service developments.
- **Audit Framework –** work continues to embed the audit tools with a particular focus on 'closing the loop' through weekly reporting via an audit tracker. The framework has now been rolled out across the Special Educational Needs and Disabilities service with a revised tool developed, staff trained and a first cycle of full audits took place across the service in March 2017. An implementation schedule has also been agreed to roll the framework out across fostering and adoption services and the first set of audits is expected to take place in June 2017.
- **Improvement Performance subgroup** – this multi-agency sub group of the Improvement Board continues to meet on a monthly basis to analyse and scrutinise key performance data. The group has recently agreed the following set of themes for future focus and the Improvement Board dashboard has been refreshed and framed around these new themes. These themes include: Early Action/Early Help; Front Door – Multi Agency Service Hub/CART; Practice thresholds; Sufficiency/Adoption/Permanence; and Workforce.

Practice Improvement Model (PIM)

- **Fylde and Wyre** – the PIM is an opportunity to test out new processes, systems and ways of working to improve outcomes for children and families. There are five areas in the PIM Project Plan: Improving and embedding quality practice; Management and staffing; Keeping services local; Working in partnership, and Improving systems and processes.
- **Evaluation** – a full evaluation of the PIM is now underway, identifying the learning and impact from the development of new ways of working
- **Roll out** – following evaluation, a clear plan will then be developed that describes how the key developments and learning from the PIM can be embedded across the rest of the county. It is expected that this roll-out begins in the first quarter of 2017/18.

More information and plans relating to the improvement journey can be found at Lancashire Children's Services Improvement Board

The work of internal audit being insufficient to provide an opinion on the overall system of internal control at the Council

The Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in both 2014/15 and 2015/16 because of the limited nature of the internal audit plan for those years.

The reasons for this have been dealt with in each year's AGS and in January 2016 the Audit and Governance Committee approved the "Internal Audit Plan 2015/16, 2016/17 and beyond". The AGS for 2015/16 noted that this Plan, if delivered, would enable the Head of Internal Audit to reach an overall conclusion on the system of internal control and Management Team gave an unequivocal assurance that sufficient audit work would be undertaken to ensure that this was the case.

In her Annual Report for 2016/17, the Head of Internal Audit provides her opinion that the Council's overall frameworks of governance, risk management and control can be given only limited assurance. The reasons for this overall opinion are set out in her report but the particular governance issues that it identifies continue to be the outcomes of the Ofsted inspection and the Council's continuing financial challenges. This report provides an update on the present position in respect of both issues and considers the implications of each issue for 2017/18.

SIGNIFICANT GOVERNANCE ISSUES IN 2016/17

The continuing or emerging risk areas identified in 2015/16 have been the subject of detailed reports to Cabinet and/or committees or Full Council in 2016/17.

Table 1 below provides an update in relation to each area.

Table 1

No.	Issue	Action	Update
1.	The establishment of the Local Pensions Partnership (LPP)	Full Council approved the establishment of the joint venture in March 2016. The Employment Committee have subsequently approved pay proposals in relation to senior staff in LPP, a Remuneration Policy and proposals in relation to the transformation of the Administration Business. Regular shareholder meetings have also now been established	Agreement has now been reached with LPP in relation to the provision of Treasury Management advice to the Council. However, in view of the reduced levels of funding available to the Council which can be invested for Treasury Management purposes the Director of Financial Resources has proposed a revised approach which was presented to the Audit and Governance Committee for consideration on 26 June 2017, for recommending to Council on 20 July, a change in the Council's own investment policy. Preparatory work is also being undertaken in relation to the potential for an additional shareholder to join the company
2.	Waste Management – valuation of waste plants and cost saving measures	In February 2016 the Council's waste company was requested to change how it delivers various waste processing operations at the two waste recovery parks in Farington and Thornton. These changes were intended to realise an £8.5 million per annum reduction in waste processing costs and necessitated a major restructuring of the company; along with works to preserve any redundant assets in anticipation of a long term strategic review of waste processing requirements.	Waste processing changes have been successfully implemented at the two waste recovery parks and the transformation of the waste company completed. The anticipated cost reductions as a result have been achieved. Separately a soft market testing exercise has been conducted to consider future processing options and trials are underway to review different operating methods. The council is in the process of seeking markets for the supply of refuse derived fuel (an outcome of the current process) to reduce disposal costs further.

		In September 2016 the Committee received a report from the Director of Financial Resources concerning the valuation of the waste plants, an issue identified by the External Auditor as requiring clarification. It was reported that an independent review of the valuation of the plants had concluded that there would be a reduction in accounting valuation through the change in use proposed but that this was not material and did not therefore require a change to be made to the Statement of Accounts. A review of the Council's Household Waste Recycling Centre and Transfer Station services was conducted in 2016 in order to consider options for their delivery beyond the expiry of the current operating contracts in March 2018.	In March 2017 the Deputy Leader and Cabinet Member for Environment, Planning and Cultural Services agreed decisions relating to the future operation of HWRCs and waste transfer services including the recommissioning of these services on the basis of the in-house provision of the site operations and the separate procurement of services for transport and waste processing. The change of operating model will involve the TUPE transfer of staff to the Council of staff currently engaged in the delivery of the service. The re-commissioning from 1 April 2018 is on the basis of the current level of service provision in terms of the current network of sites, staffing levels and existing opening hours.

3.	The Council's financial position	In September 2016 a report provided by PricewaterhouseCoopers (PwC) validated the work previously undertaken by officers in relation to the Council's budget gap for the years to 2020/21. The report concluded that the Council is forecasting a cumulative deficit of £398 million by 2020/21 and that even if the Council were to reduce its level of expenditure to the lowest quartile cost for all services it would still face an in-year deficit of £79 million and a cumulative deficit of £227 million by 2020/21. The report also concluded that the current funding model for the Council is disproportionately contributing to the funding gap. As a result the Council has continued to lobby government and stakeholders regarding the extreme financial challenges facing the Council.	The Statement of Accounts for 2016/17 include a narrative statement highlighting the most significant financial issues for the year. The narrative report sets out the outturn position on the Council's revenue and capital budgets, noting that the revenue underspend of £19.542 million was largely due to the achievement of agreed in-year savings targets and additional income of c£23 million from treasury management activities. The report also confirms capital expenditure for the year of £144.7 million, c93% of budgeted spend. The financial challenge facing the Council continues to be the key governance issue for 2017/18.
4.	Organisational transformation	Phase 2 of the Council's transformation process has been in progress throughout the year with service structures being subject to consultation, agreement and implementation procedures. Employment Committee has agreed a revised Compensation Payment Policy which provides 12	Consultation with recognised trade unions is ongoing and a new HRT1 has been served on them, recognising the need for further compulsory/voluntary redundancies to achieve necessary budget savings. Following agreement to a new Compensation Payments Policy it has been agreed with the trade unions that further discussions will

		months' pay protection for staff suffering a detriment in pay as a result of transformation	commence later this year to consider what arrangements will apply after transformation is complete. S.188 consultation meetings continue to be held on a 2 weekly basis
5.	Health and Social Care integration	In February 2017 Full Council received an interim draft report from PwC in relation to a potential Public Service Delivery Model for Lancashire, setting out a vision for integrated and sustainable public service delivery. It was reported that whilst the principles underlying the proposals have been, in the main, supported by the NHS, concerns have been expressed by some NHS organisations regarding specific proposals in the report.	Full Council agreed to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can take place with other interested parties. Cabinet will now be consulted on how they wish to proceed with possible models for integration

6.	A Combined Authority for Lancashire	In March 2016 Full Council agreed that the Council become a constituent Member of a Lancashire Combined Authority and that in the interim agree to form a shadow Combined Authority. It was also agreed that any future proposals for a devolution deal be brought back to Full Council for approval	Following the March 2016 decision the constituent members have awaited a response from government confirming that the necessary draft Order establishing the Combined Authority could be laid before Parliament. However, no formal response from government has been received and at the last meeting of the Shadow Combined Authority it was also accepted by all local authority leaders present that it was unlikely that all of the constituent members would be able to secure approval to the proposals such that the draft Order could be laid. It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and the constituent members would therefore continue to meet on a regular but informal basis. Cabinet will now be consulted on how they wish to proceed.
7.	Implementation of the Council's Property Strategy	On 26 September 2016 Cabinet agreed to the implementation of the proposed Property Strategy, involving in particular the closure of identified children centres and libraries. The former Deputy Leader of the Council subsequently agreed in principle to the community asset transfer of a number of premises, some of which were to be established as independent community libraries.	Following the change in the Council's political control on 5 May 2017, the new Administration have confirmed their commitment to re-open some libraries that have closed and will review proposed asset transfers, therefore any pending transfers have been put on hold. A report was presented to Cabinet on 13 July.

8.	ICT Strategy, systems development and data quality	In September 2015 the Ofsted report on Children's Services raised concerns about the Liquidlogic system and its ability to produce reliable information on which decision making could be based. A report was presented to the Audit and Governance Committee in September 2016 informing the Committee of the progress that had been made in improving the system and processes for recording and maintaining accurate data within the system. Many of these new arrangements have been reflected across all of the Council's main systems and include: Process for reflecting changes in hierarchies and staffing changes in all systems developed and implemented; Development and implementation of system roadmaps that set out planned system changes and timescales. Governance process for approving new developments and monitoring progress. Creation of a systems team to support and deliver system development and provide ongoing support to users.	Learning from the working group in relation to Children's Services will now be applied to the Liquidlogic Adults system. An update report to the Audit and Governance Committee at its meeting on 26 June 2017 provides a further update on progress made and challenges. In summary good progress has been made in cleansing data that affects payments to providers. The underlying data also influences other key activity including financial planning and forecasting. A programme of work has also been developed to ensure that changes resulting from new commissioning arrangements are managed at an early stage and do not present problems once the new frameworks are launched. The operating model has also been changed to ensure that the Council has a sustainable model for creating and maintaining accurate data within the adults system. More wok is needed on the wider accuracy agenda and a small working group is being established to oversee this programme of work. Other systems are under development for the 2017/18 financial year including: • Early Help module • Education, Health and Care Plans

		A working group chaired by the Deputy Chief Executive to oversee and drive improvement in data recording was also set up. This group also focussed on the development of key performance reports required in order to meet statutory and service requirements. It was reported that significant progress had been made and this had been acknowledged by Ofsted but that a continued programme of improvement and governance was still required to ensure that a culture of accountability for systems and data becomes an embedded part of social care. A number of other key systems were implemented and went live in 2016/17 including; • Genesys (replacement to the Council's telephony system) • Property Asset Management • Highways Asset Management • Project and Programme Management system (PPMS). These systems replace existing ones that were end of life. The Highways Asset Management System has replaced 24 existing systems with one solution.	• Education Management System (including a new online school admissions system) • Police integration (Early Action) Given the scale of these projects and the impact on service delivery, separate project boards have been established to oversee the implementation process.

THE HEAD OF INTERNAL AUDIT'S OVERALL OPINION FOR 2016/17

The Head of Internal Audit's overall opinion as set out in her Annual Report is that she is only able to provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2016/17. There are a number of areas of the Council's operation where managers have accepted that they are unable to themselves provide assurance over the effectiveness of controls and therefore audits have been deferred until managers are themselves satisfied that improvements have been made. That position, taken with the continuing financial challenges facing the Council and the Ofsted judgement in relation to Children's Services, means that she could provide only limited assurance overall. However, the Head of Internal Audit has also reported that, despite the instability arising from the changes taking place across the Council, there are some areas where strong control is exerted over the services being provided and systems operated, and the Internal Audit Service has provided substantial assurance in relation to a number of the Council's systems and services.

THE COUNCIL'S SYSTEM OF GOVERNANCE – THE CODE OF CORPORATE GOVERNANCE

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Council's capacity, including the capability of its leadership and the individuals within it;

- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Code of Governance is reviewed annually and the outcome reported to the Audit and Governance Committee. It sets out the requirements underpinning these principles and how the Council ensures that it meets them along with the evidence base used to assess their effectiveness.

THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's review of the effectiveness of its governance framework is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's updates and annual report, including her overall opinion, and the observations from the External Auditor and other inspectorates.

The regular and ongoing processes that have been applied to maintain, review and improve the effectiveness of the framework include:

- Regular review of the Council's Constitution and ethical governance arrangements by the Monitoring Officer;
- Reviews of financial controls by the Director of Financial Resources;
- Reviews and updates of the Corporate and service Risk Registers;
- The work of Internal Audit and the outcome of individual audits of services;
- The work of the Council's scrutiny committees and the Audit and Governance Committee;
- The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews;
- The consideration by the Cabinet Committee on Performance Improvement of regular quality of service reports;
- Assurance provided by Management Team in respect of the internal controls for which they have responsibility, in particular their scrutiny of regular budget and performance reports including the delivery of savings targets within the Medium Term Financial Strategy;

- Regular briefings on key corporate governance issues to directors and heads of service.

GOVERNANCE CHALLENGES IN 2017/18 AND ACTIONS TO BE TAKEN

The County Council's elections in May 2017 resulted in a change of political Administration from a minority Labour Administration to a Conservative Administration with an overall majority.

The change in Administration will undoubtedly result in revised Council policies across a wide range of service delivery areas, for example in relation to the Council's current Property Strategy where decisions made to close a number of libraries will be reviewed.

The new Administration have also confirmed that they intend to review the Council's current Corporate Strategy with a view to a report being considered by Full Council in February 2018.

On a wider policy front the new Administration's approach will involve policy development sessions with the Cabinet, Lead Members and Management Team addressing key strategic issues such as health and social care integration. Cabinet will also be fully briefed as a priority on the Council's budget and financial position.

The Council's financial position

Notwithstanding the scale of the financial challenge facing the Council, it has a statutory duty to set a legal, balanced budget. The Director of Financial Resources, as the Council's "s.151 officer" who is responsible for the financial management of the Council, is required by s.114 of the Local Government Finance Act 1988 to report to Full Council if he considers that the Council's expenditure is likely to exceed its resources. In these circumstances the Council must then consider the report within 21 days and decide what action, if any, it proposes to take in response.

If the situation is unresolved and the Council is unwilling or unable to set a balanced budget then the External Auditor may intervene and has powers to issue an Advisory Notice if the External Auditor considers that the Council is about to take a decision which involves, or would involve, the Council incurring expenditure which is unlawful. If the situation is not resolved to the satisfaction of the External Auditors they have the power to apply for judicial review of the decision or a failure to act and would seek an order prohibiting the decision being taken or requiring it to be reconsidered.

It is in that context that the financial challenge facing the Council identified in the Director of Financial Resources' Narrative Report must be regarded. It follows that one of the key priorities of the Council in 2017/18 will be to identify ways in which the Council can deliver statutory services within a much reduced budget.

This will be a key focus of the Council's new Administration and it is anticipated that the need to achieve budget savings will be a primary consideration in future policy decisions. The previous Administration had requested Management Team to identify the potential impact on service delivery, and the level of savings that would be achieved, if all services were funded at the lowest quartile of benchmark authorities' costs. The outcomes of this work will now be considered by the new Cabinet to assist them in formulating policy decisions and identify where savings can be achieved.

Governance challenges cover all aspects of this process, some of which are highlighted here:

- In bridging the financial gap, the Council must ensure appropriate governance is in place to provide assurance that the impacts of policy decisions do not disproportionately affect parts of the community. Extensive work will be undertaken to consult with the public on proposed changes and respond to the concerns raised.
- Successive years of funding reductions may now mean that budget saving will in future look to areas of service that support statutory provision that are already under significant demand pressure. Even when funding flexibility decreases and demand for services is rising, the Council is obliged to ensure that the legal rights of citizens to receive services are protected. The legal risks posed by each policy option will be made clear to decision makers.
- Whilst policy options may be developed and agreed, delivering significant service transformations or even ceasing services can present huge logistical, legal and financial challenges requiring a great deal of specialist expertise to implement in the required timeframes. Performance management protocols will be put in place to oversee the process including oversight by the Management Team.
- Because reserves continue to be used to support areas where budget savings require additional time for implementation or further funding, their levels are expected to diminish by 2018/19. The Council's financial controls will be updated to address the implications, providing clarity on the Council's procedures for authorising investment decisions funded by reserves, the adequacy of provision for unexpected events and liquidity.

- Although budgets are agreed annually, the Medium Term Financial Strategy has formed the backbone of the Council's financial considerations for a number of years, indeed, it is over this timeframe that the financial position presents a radically different challenge in terms of the scale of the savings to be achieved. The Council will work with partners in district councils and the NHS to identify areas where joint benefits can be derived, without creating unnecessary bureaucracy.

Delivery of the Ofsted improvement plan

The focus for improvement activity will continue to be driven through the Improvement Plan and the cycle of 12 Week Improvement Plans. The following are some key priorities for the future:

Getting the basics right - working with staff to ensure that there is a clear understanding of the expectations for every child's case and that this understanding is consistent across the workforce. Every case should have a timely assessment, the child should be seen regularly and these visits should be purposeful, there should be a Specific, Measurable, Achievable, Realistic, Timely (SMART) plan in place and this should be outcome focused and informed by the child and recording on LCS is up to date.

Management oversight - further work needs to be done ensuring that strong and effective management oversight is embedded consistently across the county.

Leadership – ensuring that the transition to new post holders at DCS and Head of Service level is seamless and enables a continued focus on existing improvement plans, priorities and strategies.

High numbers of social workers with low levels of experience – whilst we have managed to significantly increase capacity across children's social care it has been extremely challenging to recruit experienced social workers. A 12 month plan has been developed that will prioritise the development and retention of existing staff to build their skills and experience.

North Lancashire – there are ongoing challenges in recruiting and retaining qualified and experienced social workers in Fylde, Wyre and Lancaster. As part of the above 12 month workforce plan we will implement a bespoke approach for north Lancashire to address the specific issues found in this part of the county.

Caseloads – whilst average countywide caseloads are good there are still particular teams and specific parts of the county where caseloads are higher than we would like.

Residential Strategy – ensuring implementation at pace of the recently agreed two year strategy including the development of a reshaped in-house provision.

MASH/CART Redesign – working with partners to improve access to services that are more effective in ensuring that vulnerable children can quickly receive the right support and protection they need.

Practice Improvement Model – identify and roll out across the county the improved ways of working that have been developed and will have maximum impact.

Risk sensible model – continuing to embed a risk sensible approach across practice and through the LSCB begin the roll out of the risk sensible model to partners.

Audit activity in fostering and adoption – the existing audit model is being revised to ensure that by June 2017 fostering and adoption cases will be more effectively audited: tools are being amended and training is planned for all fostering and adoption managers.

Health and social care integration

Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets.

Collaborative working must be underpinned by appropriate strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups (CCG) and other health organisations whose remits overlap into the County Council's responsibilities.

The Better Care Fund (BCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed. The County Council will continue to be the host partner for the fund in 2017/18. A new Better Care Fund Plan will be required for 2017-19 (this will now be a 2 year plan). The plan will need to be based on national planning guidance, which has not yet been produced, however there are indications of what will be required and these are being used to help develop a draft plan. This involves working in partnership with all of the CCG. The plan will need to ultimately be agreed by the Health and Wellbeing Board.

BCF resource will be focused around those programmes that can deliver the greatest amount of change to enable successful programme delivery and maximise integration benefits. There is a recognition that the government expects to see High Impact Change Programmes form part of new BCF plans, and this will be prioritised through the Council's contribution to the Better Care Fund Steering Group with emphasis placed on projects that have clear and quantifiable objectives.

The Council's approach to health and social care integration will be considered by Cabinet in the context of the Sustainability and Transformation Plans for Lancashire and South Cumbria and the developing government agenda.

MONITORING IMPLEMENTATION

The key governance challenges facing the Council in 2017/18 are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a risk score and a residual score after mitigating actions have been applied as well as the direction of travel.

Regular updates of these key risks will reflect the implementation of the new Administration's policies. It is anticipated that this will initially involve amending the Council's current budget to deliver manifesto commitments. Subsequently Cabinet will consider how it wishes to address the financial challenge facing the Council and it is expected that Cabinet will propose an emergency budget by or before Autumn 2017.

Delivery of the Ofsted Improvement Plan will continue to be overseen by the Improvement Board and will also be monitored through ongoing Ofsted inspections and peer review.

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

We have audited the financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the technical annex, the introduction to the Group Accounts 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 Director of Financial Resources and auditor

As explained more fully in the Statement of Responsibilities, the Director of Financial Resources 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Financial Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matters:

In November 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that there were wide ranging areas for improvement across the service with concerns raised on:

- the failure of the Authority to work with other key agencies in strategy discussions;
- risk assessments being undertaken without reference to, or knowledge of, significant history;
- complex work assigned to insufficiently qualified or experienced practitioners; and
- a lack of effective management oversight.

The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account.

These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

The Authority’s Chief Internal Auditor gave limited assurance over the Authority’s system of internal control in her opinion for the year ended 31 March 2017. This was because the internal audit plan put in place for the year, and approved by the Audit and Governance Committee in January 2016, did not provide for coverage by internal audit of the full system of internal control.

This matter is evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until:

- we have completed our consideration of matters brought to our attention by the Authority in 2013. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.
- We have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Karen Murray

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
4 Hardman Square
Spinningfields
Manchester
M3 3EB

10 August 2017

Glossary of Terms

and Contact Information

A

Accounting policies

The rules and practices applied by the Council that determine how the transaction and other events are reflected in financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred (known as experience gains and losses) or because the actuarial assumptions have been changed.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached 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.

Capital receipts

Income received from the sale of land, buildings or equipment. The proceeds are set aside in the capital receipts reserve in order to repay the Council's borrowings or to finance new capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS) and UK Generally Accepted Accounting Practice (UK GAAP). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a 'true and fair' view of the financial position, financial performance and cash flows of the Council.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the Council for goods and services provided but where the income had not been received by 31 March.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

E

Earmarked reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substances for example computer software licences,

International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the Council must charge to the income and expenditure account to provide for the repayment of debt.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Assets used by the Council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the Council or be controlled or influenced by the Council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, and senior officers.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family
- partnerships, companies, trusts or other entities in which the individual, or member of their close family, has a controlling interest.

Reserves

An amount set aside in one year which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Revenue expenditure

Day to day payments on running the Council's services including salaries, contract payments, supplies and capital financing costs.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the Council. Examples include works on property owned by other parties and capital grants to other organisations.

Contact details

I would like to thank you for showing an interest in the Council's finances and hope you find this information useful. We feel it is important that residents or businesses in the County understand all of the services that we provide and how your council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

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