Statement of accounts 2019/20

Lancashire County Council

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Front cover: Preston Bus Station
Photo: Cassidy+Ashton

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Written statements to the accounts

Moor Park
Photo: Helen Curran

Foreword by the Chief Executive and Director of Resources

I am pleased to introduce the statement of accounts for the 2019/20 financial year.

The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating its subsidiary Lancashire County Developments Limited. The accounts for the Lancashire County Pension Fund are also included, for which Lancashire County Council is the administering authority.

Coronavirus pandemic

The national lockdown was announced on 20 March 2020 with many local businesses forced to close. These are unprecedented times and I am incredibly proud of how people in Lancashire have risen to the challenges of the coronavirus pandemic.

At the council we have been working to make sure our communities are protected and well informed during the outbreak - aligning our response to the Local Resilience Forum structures to ensure clarity and continuity between the council's work and the work of partner organisations.

The scale and scope of the challenges that this emergency has presented could not have been predicted, but we have had exceptionally good contingency plans ready, which has meant, that we have been able to rise to those challenges at speed.

Impact on service provision

All our resources have been directed towards keeping the people of Lancashire healthy, whilst supporting our most vital services and safeguarding the resilience of all our colleagues.

- We have managed to keep more than 500 schools open through the lockdown period to support the children of key workers and our most vulnerable families. Families who receive free school meals were supported with a meals service.
- We launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating.
- We have supported district councils in setting up their community hubs which are now in place in all 12 of our districts.
- Internally we have moved from being an organisation which is primarily location-based to one that is primarily remotely based.
- Many staff members were redeployed to new duties to support the response.

Impact on the council's financial position

The costs of responding to the pandemic will mainly affect the council's financial position for 2020/21.

At this stage, it is difficult to quantify the full impact of the pandemic on the council's financial resources but the current estimated costs to the council of responding to the pandemic are in excess of £100 million. These costs are not all directly attributable to direct expenditure on COVID-19 related activity but include the savings we have not been able to deliver as a consequence of responding to the crisis and an estimated loss of income.

Further details regarding the council's response to the COVID-19 pandemic can be found in the Annual Governance Statement.

Continuing to improve service for customers

Despite these difficult times, there is still much to say about our achievements and successes. We have many great services including award winning libraries, telecare services for older people and construction teams, to name but a few. Our Shared Lives service has been rated as 'outstanding' by the Care Quality Commission (CQC) for the second year running. We have also received an inspection report from the CQC with a 'good' rating for our newly acquired Supported Living Service in Preston, representing the exceptional work done by the team.

A project to improve the efficiency of patients being discharged from hospital has been awarded 'Best Communication Solution' by Health Tech Digital. Through this project, working with Lancashire Teaching Hospitals, we have made it easier for health and social care teams to share records.

In addition, the redevelopment of the iconic grade II listed bus station in Preston has won three categories at the Royal Institute of British Architecture (RIBA) 2019 awards.

Outlook for the future

The county council operates in a challenging and changing environment. It continues to face significant demand and cost pressures in relation to both its adult and children's social care services, alongside the reductions in central government funding.

The government has further delayed its Fair Funding Review and Business Rates Retention scheme. This together with the uncertainties in relation to the impact of leaving the EU and COVID-19 related expenditure means that it is extremely difficult to forecast our income and expenditure in the short to medium term.

However, the county council has a track record of meeting the financial challenges that it has been faced with, and I am confident that we will continue to do so in the coming year.

A Ridgwell

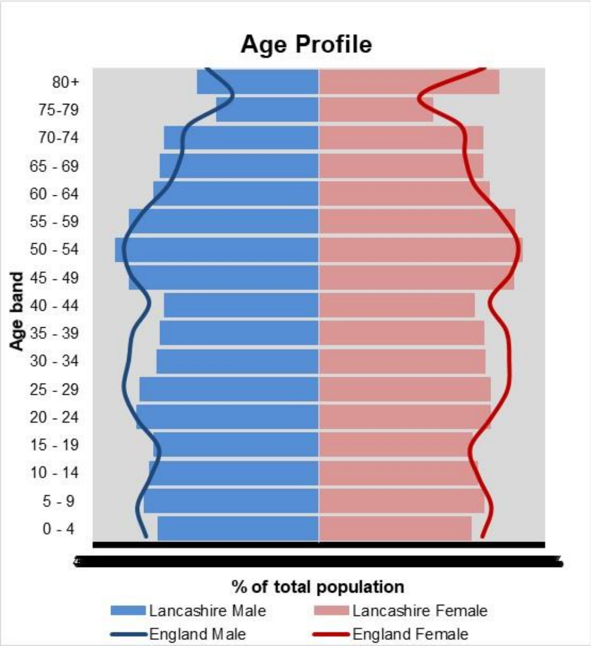
Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

The county of Lancashire

The county of Lancashire lies in the north west of England. It is bordered by Cumbria, Greater Manchester, Merseyside and Yorkshire with a coastline to the Irish Sea.

Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. At £27 billion, it is one of the largest economies in the north of England, with around 44,000 businesses supporting 515,000 jobs.

Lancashire has a diverse heritage and a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's fourth largest aerospace cluster, as well as core strengths and capabilities in advanced manufacturing, energy, digital and health innovation.

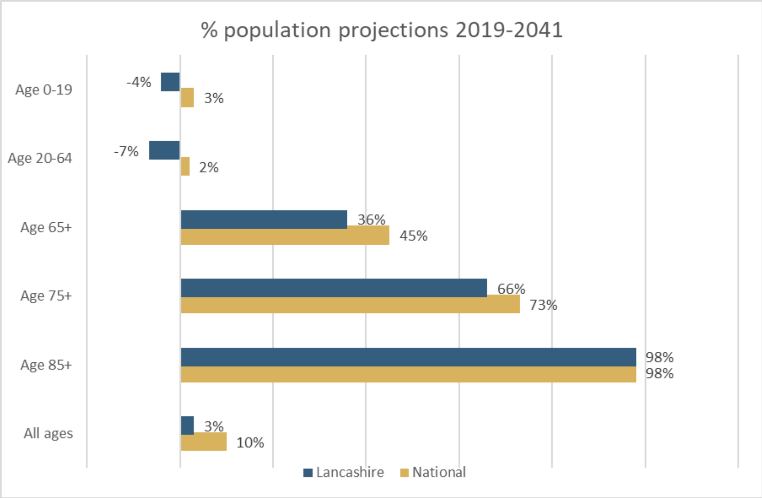


ONS mid-2018 population estimates

Demographic profile of Lancashire

The Office of National Statistics (ONS) mid-year population estimate for Lancashire in 2018 showed that there were 1,210,053 people living in the county. The population is projected to increase to 1.24 million by 2041, with significant increases forecast in the age over 65 population.

The profile of the population is an important determinant of the demand for services provided by the council, such as the need for adult and children's social care. The age profile chart highlights some challenges with a forecast lower proportion of working age adults relative to an increasing older population. This highlights the importance of our economic development activity to attract working age people into Lancashire.



ONS 2016-based population projections for local authorities

About Lancashire County Council

Lancashire County Council is the fourth largest council in the UK covering a geographic area of 2,903km^2. It 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.
Its responsibilities include:

- Schools and education;
- Adult and children's social care;
- Highways and transport;
- Registration of births and deaths;
- Public health;
- Waste management;
- Libraries and heritage; and
- Economic development.

Our vision

"Here at Lancashire County Council we are helping you to make Lancashire the best place to live, work, visit and prosper."

Our Vision for Lancashire forms part of the county council's planning and performance framework. It sets out our priorities in an open and transparent way.

We want Lancashire to be the county people choose to create a home, raise their children, develop a career and grow old in. We are committed to developing and celebrating our diverse communities, heritage and landscape to create a strong sense of place we can all be proud of.

Our vision is focused around five objectives, which we set out on the following pages.

Lancashire will be the place to live

Lancashire is a county of diverse communities.

It is a place where people are valued and will feel able to have their say. It will be a county where housing meets the needs of all ages, where people are safe and feel safe, surrounded by clean, green spaces where everyone can enjoy a good quality of life and be happy.

It will be a county where:

- Children of all abilities do well in our first class schools, colleges and universities, gaining skills for life
- People have good housing
- People live healthier lives for longer
- People can travel on good quality, reliable public transport
- People get on well together and are connected to their local community
- Our most vulnerable people are protected and supported
- People make use of technology to access services, support and information

Lancashire will be the place to work

Lancashire will be a county that supports a flexible and inclusive labour market, where skills development is championed and where talented individuals choose to live and work.

It will be a county where:

- We support people of all ages and abilities to learn and develop their skills
- Significant new, good job opportunities are created
- We support and encourage business investment, innovation and growth
- We aim to increase the earning power of our residents and communities
- We build and develop effective infrastructure and transport links

Lancashire will be the place to prosper

Lancashire will be a county that promotes strong economic growth in both urban and rural economies.

It will be a county that actively boosts productivity and prosperity for everyone.

It will be a county where:
- We invest in industry, and promote innovation to secure Lancashire's growth potential
- Businesses are supported to start up, to thrive and to grow
- We build on the strengths and resilience of local industry
- Our residents, businesses and places are enabled to be more productive
- We promote Lancashire as a national and globally connected destination and a well performing place to do business

Lancashire will be the place to visit

Lancashire is a beautiful county with a wealth of culture.

From green fields and rolling hills to coastal towns and country villages – Lancashire really does have it all as a place for people to enjoy.

It will be a county where:
- We celebrate our beautiful, clean landscapes
- We encourage the visitor economy and the opportunities for growth
- People enjoy our culture and heritage, diverse communities and local attractions
- We promote our wonderful sporting attractions and hidden gems

Lancashire will be the place where everyone acts responsibly

The county council will work closely with our partners to enable people in Lancashire to develop and thrive.

We will listen to the needs of people and work with our partners and communities to empower them to meet their own needs. We will help people to look after themselves and help them to provide care and support to their families, friends, neighbours and colleagues.

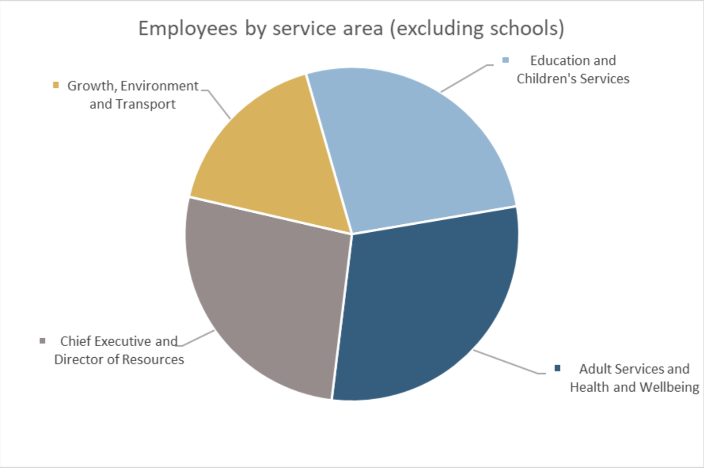
It will be a county where:

- We will equip our most vulnerable people with the support and skills they need to do more for themselves
- We commission, procure and provide services that provide maximum benefit to Lancashire residents
- We recruit and retain a workforce that meets service needs
- We prevent waste and use money wisely
- We learn from others

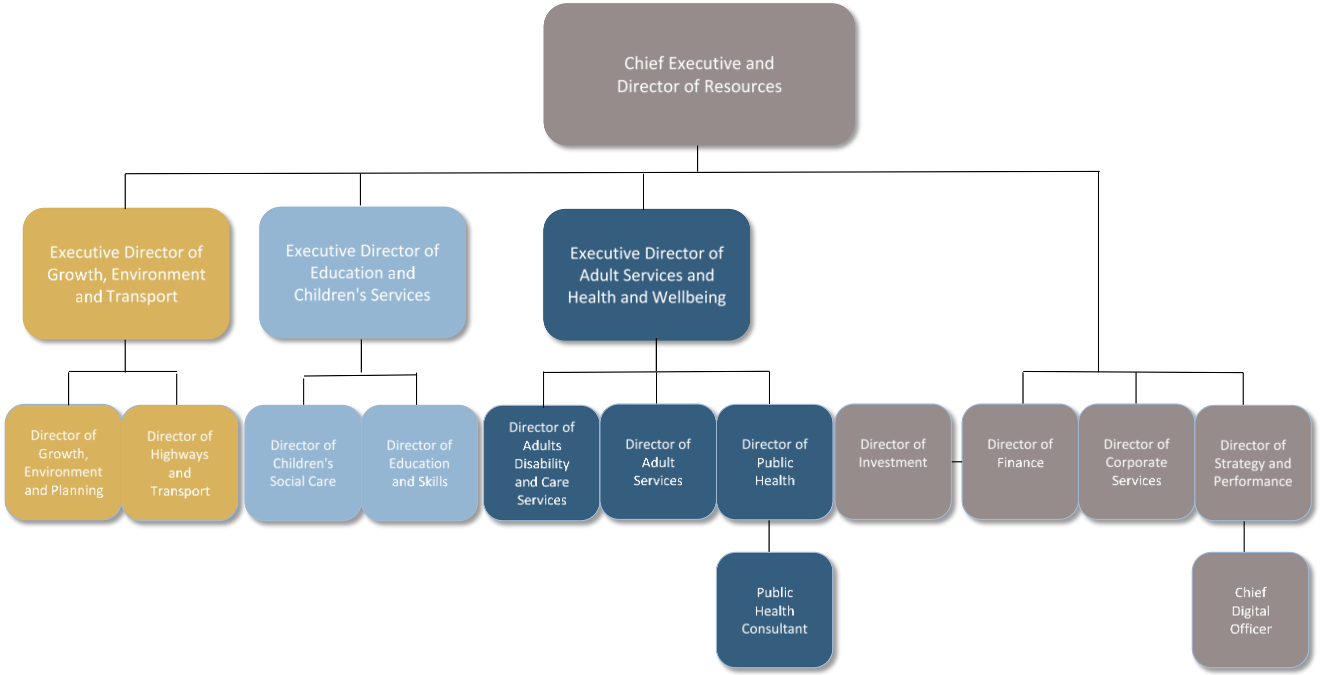
Our staff

The council is managed by the Chief Executive and Director of Resources together with three executive directors. They are accountable to 84 county councillors who determine policy and agree spending priorities. The council is supported by administrative, professional, technical and operational employees whose role is to advise the council on all aspects of its functions and to put into effect decisions, which are taken in order to provide services to the public.

The council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,500 people in full time and part time contracts with around a further 28,700 people employed in schools.



The council's management structure is shown below.

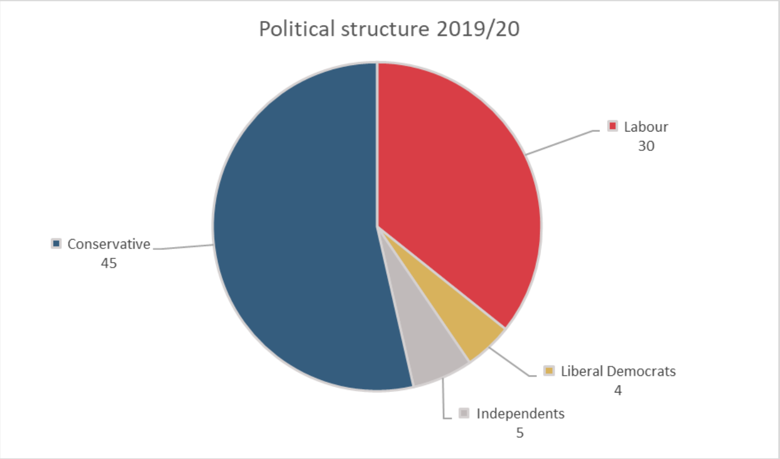


Our governance structure

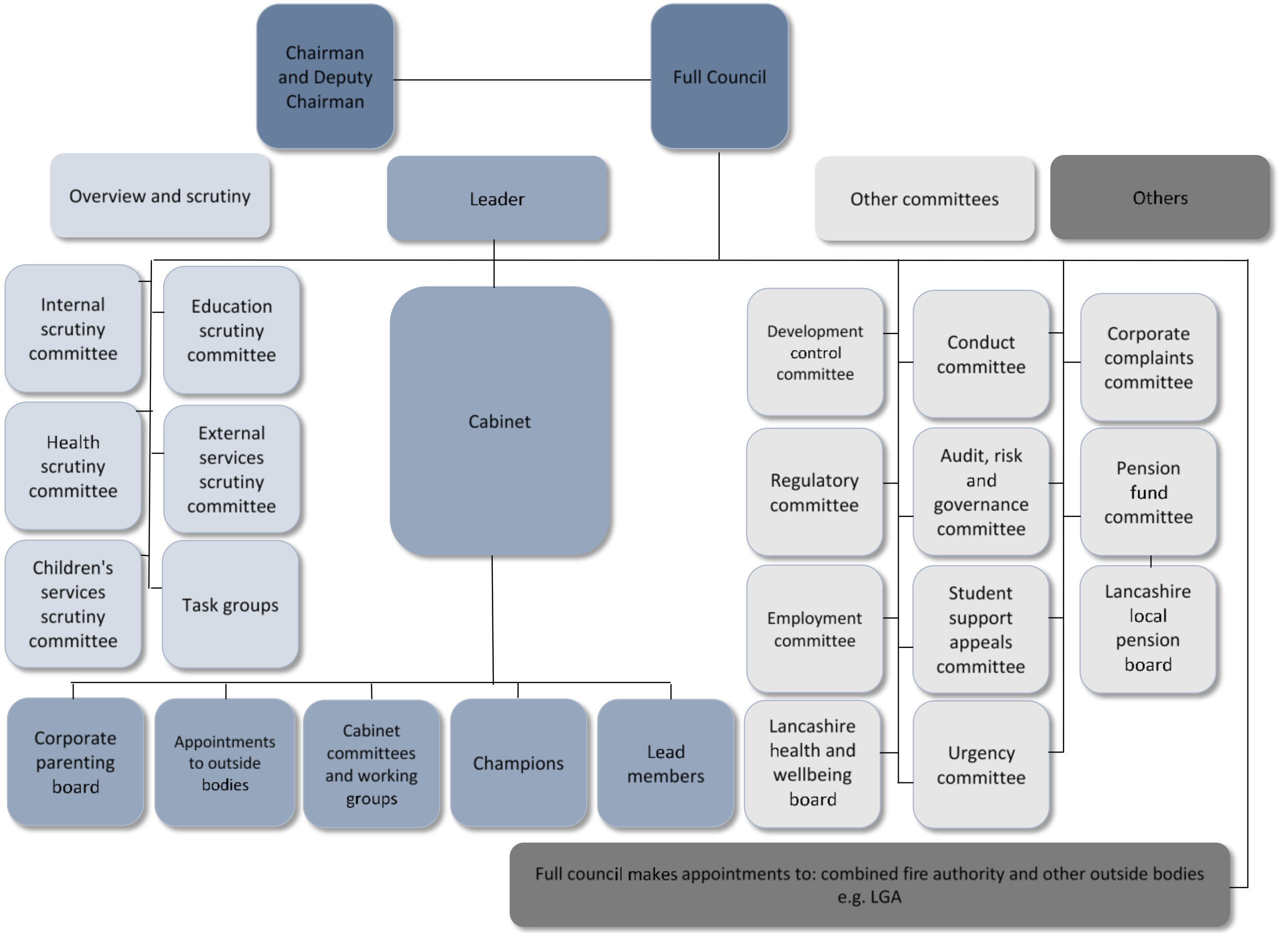
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision-making processes.

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

The chart below shows the political structure of the council as at 31 March 2020.



The political management structure of the council is shown below.



Further details of the council's governance arrangements are provided in the Annual Governance Statement.

Our risk management

In delivering our services, we are faced with a range of risks, which can threaten the quality and availability of the services we provide. We aim to anticipate and mitigate these risks through an embedded risk management framework. The corporate risk and opportunity register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit, Risk and Governance Committee. Some of the most significant of these risks are highlighted below:

Risk description	Possible consequences	Mitigating actions
COVID-19 pandemic	Operational challenges and the related financial impact.	A twice-weekly situation report has fed into both the corporate emergency response team and the corporate management team. The reports set out: • Impacts on current service delivery • Mitigation actions to minimise impacts • Resource issues – e.g. staffing and equipment shortfalls There is also periodic reporting of cost pressures to the Ministry of Housing, Communities and Local Government (MHCLG).
Reshaping the county council.	Inability to deliver service improvements at pace and a balanced budget post 2022/23.	This risk is being monitored by the service challenge board, financial monitoring boards and corporate management team.
Protect and safeguard children.	Children are put at risk of harm.	New multi-agency safeguarding arrangements have been established on a pan Lancashire basis, to ensure there is a shared responsibility for safeguarding and promoting the welfare of children. Work has begun to implement a Family Safeguarding model to ensure a clear focus on achieving permanency for children outside of local authority care.
Delivering a statutory compliant service for children and young people with special educational needs and/or disabilities.	Unmet need will result in children and young people failing to meet their potential and therefore not be supported as positively as possible into adulthood.	The 'Getting to Good Plan' has been refreshed, to ensure continued improvement. Progress is monitored via the multi-agency Getting to Good Board.

Our performance

Adult services

Our aims (measures of success) as outlined in our corporate strategy include:

- Our most vulnerable people will receive the support they need
- People take responsibility for their own health and wellbeing, along with making healthy choices
- We provide more services which support people to live in their own home
- Care services will be good or outstanding

Our priority is to support people to live as independently and healthily as possible, with the right level of care for the right amount of time for themselves and their carers, by investing in prevention, early intervention and the use of technology. We are working to ensure people in Lancashire are safe, secure and connected to their local community, maximising their potential, remaining healthy and feeling well.

Over the past 12 months, the number of supported admissions to residential care has significantly decreased, and the number of older adults who are still at home 91 days after discharge from hospital to reablement/rehabilitation services has increased to 84.4%, this is above the national average.

Of new clients coming into the service the percentage of those who required short term support to maximise independence, 95.1% of these achieved a successful outcome without needing any longer sustained period of care. The focus on enabling people to achieve independence is demonstrated by the effectiveness of our reablement service and reducing the number of people admitted to residential care.

The proportion of adults with learning disabilities who live in their own home has reduced slightly over the last year, yet Lancashire is well above the national average of 77.4%. Alongside this measure those with disabilities within employment is improving, however the reported figure still shows Lancashire to be under the national average. Work is ongoing to improve this.

We are committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. The proportion of care homes and community based services rated as 'Good' or 'Outstanding' by the Care Quality Commission have both increased and are better than regional and national averages.

Indicator	2018/19	2019/20
Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over (good is low)	711.9	683.7
Percentage of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement/rehabilitation services (good is high)	82.6%	84.4%
Percentage of new service users who completed short term support to maximise independence (good is high)	84.6%	95.1%
Proportion of adults and older people receiving long term services who are supported in the community (good is high)	70.3%	69.8%
Proportion of adults with learning disabilities who live in their own home (good is high)	84.1%	82.1%
Percentage of adults with learning disabilities in employment (good is high)	1.7%	2.0%

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2020

Proportion rated as Good or Outstanding	2018/19	2019/20
Residential care homes (good is high)	83.1%	84.7%
In-house residential care homes (good is high)	82.4%	83.3%
Community based adult social care services (good is high)	94.5%	94.8%
In-house community based services (good is high)	100.0%	100.0%

Education and children's services

Our aims (measures of success) as outlined in our corporate strategy include:

- All schools are rated good or better
- To have more young people are in education, employment or training after leaving school
- People leave education better prepared for work and life with better qualifications and skills
- Educational outcomes for vulnerable children improve
- Our most vulnerable people will receive the support they need
- Maximise the learning opportunities available for all ages and abilities

Over several years now, the number of schools judged to be good or better has consistently been above the national average. Lancashire school place planning remains good; with levels of pupils offered one of their three preferences above national average for both primary and secondary schools.

Attainment under a range of measures at Lancashire schools is mostly in line with the national average for those taking key stage 2 and 4 examinations. However overall performance of foundation stage pupils remains lower than the national average and there are some groups of pupils that are still under performing due to their circumstances and needs. They will be a focus of our support going forward. Overall absence levels in Lancashire schools remain low with the Lancashire rate significantly lower than national and regional rates. However, the permanent exclusion rate remains high, placing Lancashire in the bottom quartile nationally.

The average point score per entry for Lancashire A-level pupils has increased each year since 2015/16, the most recent average score placing Lancashire in the top performing quartile. The proportion of young people aged 16-17 NEET (Not in Education, Employment or Training) improved considerably during the year with the latest performance moving Lancashire close to the national rate.

Lancashire has experienced an increased level of demand placed on its social care service for children. Considerable work has been undertaken in managing this demand through improving its early help services and managing access points more effectively. The number of children on protection plans reduced significantly over the year with the latest rate low in comparison to similar authorities. Other social care demand areas have stabilised, however the rate of children looked after by the Authority though stabilised, remains above national benchmarks. Outcomes for vulnerable groups such as care leavers remain a priority as the performance remains below national benchmarks.

The number of e-book downloads have also increased significantly since the last year, this has been achieved through listening and reacting positively to service user's feedback.

Indicator		
Percentage of pupils offered one of top three preferences primary / secondary (good is high)	97.9%/95.9% (2018)	97.9%/95.3% (2019)
Key Stage 4 – Average attainment 8 score (good is high)	46.7 (2017/18)	46.7 (2018/19)
Key Stage 2 - Percentage of pupils reaching the expected standard in reading, writing and mathematics	65% (2017/18)	64% (2018/19)
Early Years Foundation Stage - Percentage of children achieving a good level of development	69.5% (2017/18)	69.2% (2018/19)
Looked After Children Key Stage 4 – Average attainment 8 score (good is high)	18.2 (2017/18)	16.6 (2018/19)
Absence levels in primary, secondary, and special schools (good is low)	4.5% (2017/18)	4.4% (2018/19)
Percentage of education settings rated Good/Outstanding (good is high)	89.5% (Mar 19)	90.0% (Mar 20)
16-17 year old Not in Education, Employment or Training (NEET) (good is low)	10.1%	6.9%
Referrals to children's social care per 10,000 population (measure of demand)	474.0	448.0
Percentage of Children and Family assessments in time (<45 days) (good is high)	82.4%	88.5%
Stability of placements: Percentage of 'children looked after' with 3 or more placements (good is low)	8.8% (Mar 19)	7.6% (Mar 20)
Number of children on Child Protection Plans (measure of need)	1,368 (Mar 19)	836 (Mar 20)
Number of e-book downloads (good is high)	255,572	353,007

Growth, environment, transport and community services

Our aims (measures of success) as outlined in our corporate strategy include:

- Our roads and pavements will be safe to use, and maintained to a good standard
- We will continue to dispose household and commercial waste in a way that meets the latest environmental standards, and we will work with businesses to reduce the amount of packaging they use so that our recycling rates are high
- There will be more investment in Lancashire to support business growth

This year we have made significant progress towards Lancashire being a place where people of all ages, ability and backgrounds can live safely, in healthy homes and in a clean environment.

We have improved our highways maintenance services overall including decreasing the average time taken to repair street lights. The performance for number of highway defects repaired within targeted timescales remains similar to last year's performance.

In terms of waste management the 2019/20 outturn position has remained consistent throughout the course of the year with the latest annual forecast showing a recycling rate of 45%. In terms of the processing of residual waste at Thornton and Farington sites, both plants continue to be successful in mass loss and landfill diversion.

Boost, Lancashire’s Business Growth Hub, has continued to support Lancashire’s businesses grow with the numbers of small businesses supported and new businesses established both increasing significantly over the past year. In addition to this, superfast broadband coverage continues to improve, above the Government's target and above the UK coverage of 96.7%. The Lancashire Superfast Broadband Programme is continuing to deliver and is likely to complete at the end of 2020.

Indicator	2018/19	2019/20
Average number of working days to repair a street lighting fault (good is low)	6.7 days	6.31 days
Safety carriageway defects repaired within 4 hours (emergency) + 2 working days (urgent) (good is high) *	92.03% Oct 18 – Mar 19	92.24%
Safety carriageway defects repaired within 5 working days (non-urgent) + (10/+20 working days) (non-urgent) (good is high)	93.61%* Oct 18 – Mar 19	93%
Percentage of waste re-used, recycled and composted (good is high)	44.6%	45.0%
Number of small businesses supported by Boost (good is high)	542	431
Number of small businesses established by Boost (good is high)	209	102
Superfast broadband coverage (good is high)	97.6%	97.8%

* In August 2018, a new highways defects repair policy was implemented, meaning that reporting changed in accordance with that policy from September 2018. Data for two quarters have been provided for comparative analysis.

Public health and wellbeing

Our aims (measures of success) as outlined in our corporate strategy include:

- People live healthier lives for longer
- People take responsibility for their own health and wellbeing, along with making healthy choices
- People enjoy a wide range of leisure, sporting and cultural activities

Our priority is to develop Lancashire into a safer, fairer and healthier place for our residents. Influencing and improving sustainable behaviour change is a key area of focus as it is estimated that around 40% of all deaths in England relate to health behaviours, although the influence of the social determinants of health in that cannot be underestimated.

We are seeing a worsening in health inequalities, particularly in males (despite a small life expectancy improvement last year). This means that people are living with more disease burden that leads to higher levels of demand on public services, much of which can be prevented by behaviour change programmes and early intervention services.

Over the past year, there has been a further drop in the prevalence of smoking, and we are performing within the national average of 14.4%, our services have become much more targeted to ensure focus on vulnerable groups to enable them to stop smoking.

Childhood obesity in both 4-5 year olds and 11 year olds continues to rise and is now above the national average. We will look to reverse the trend delivering limited but targeted early years and healthy child/family programmes along with improving infant feeding practices. There has also been an increase in adult obesity where 64.6% are recorded as obese/overweight in Lancashire compared to the national average of 62.0%. We will aim to address this with a new targeted weight management programme across the county, along with a whole systems approach to support sustainable behaviour change. There has, however, been an increase in adults undertaking physical activity which is reflective of our previous work in this area. We are planning to continue to maintain this positive outcome.

We remain concerned at the further fall in successful drug and alcohol treatment completion rates. This means that the alcohol and drug related burden continues to increase. We will maintain our focus on this area through peer support and recovery based models of care. However, these are still statistically on par with the national average performance, with the exception of 'Percentage of successful drug treatments in adults (non-opiate)' where the national average is only 34.4%.

	2018/19	2019/20
Estimated percentage of persons aged 18 and over that smoke (good is low)	14.8%	14.2%
Estimated percentage of adults (18+) classified as overweight or obese (good is low)	63.9%	64.6%
Percentage of children (aged 4-5 years) classified as overweight or obese (good is low)	22.7%	23.5%
Percentage of children (aged 11 years) classified as overweight or obese (good is low)	33.0%	34.5%
Estimated percentage of residents (aged 19+) exercising at least 150 minutes per week (Sport England survey) (good is high)	65.3%	66.5%
Rate of alcohol related hospital admissions (narrow) (per 100,000) (good is low)	625	664
Percentage of successful drug treatments in adults (opiate) (good is high)	7.7%	6.4%
Percentage of successful drug treatments in adults (non-opiate) (good is high)	52.9%	46.0%

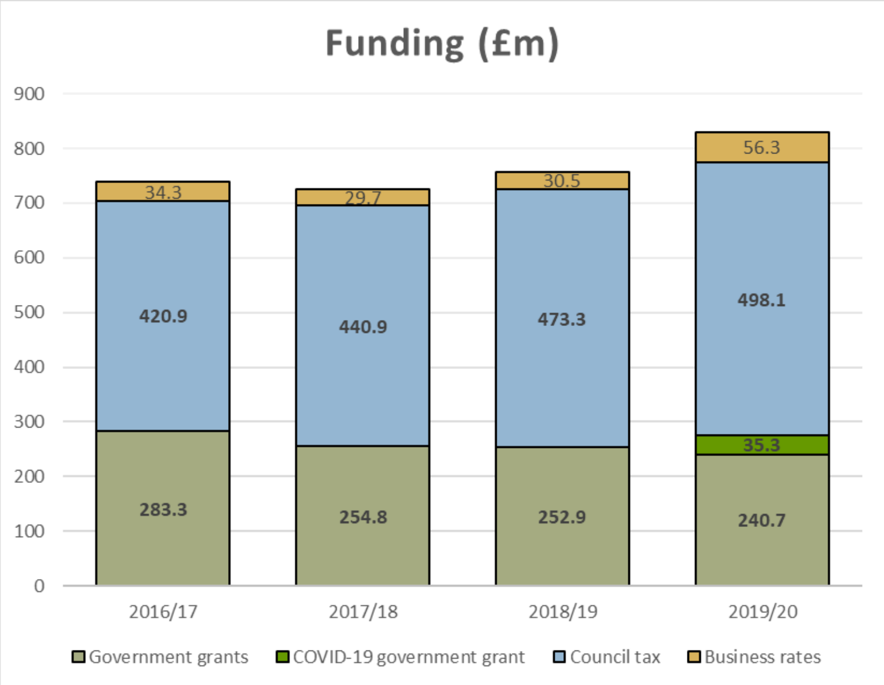
Our financial performance

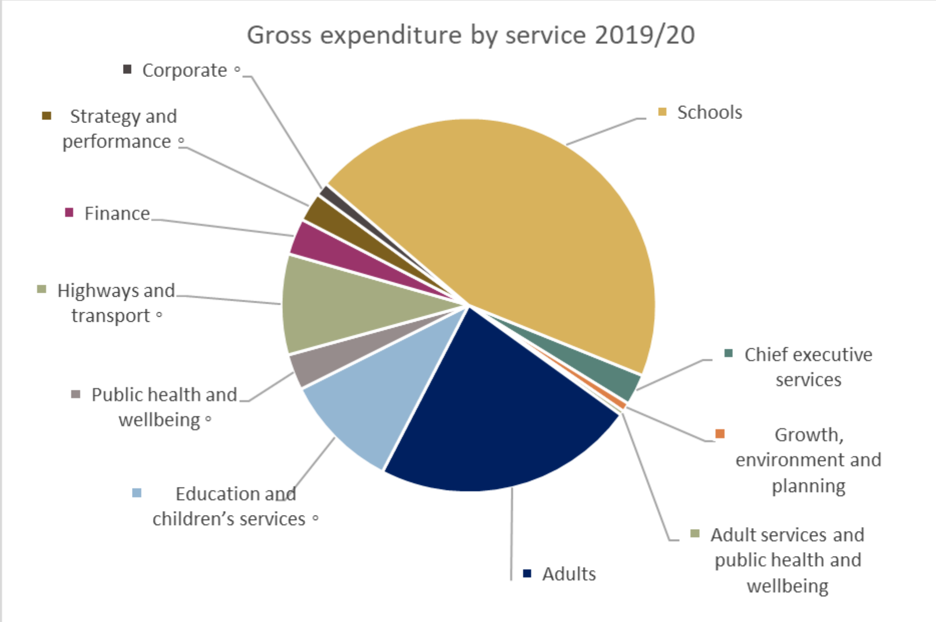
Revenue summary

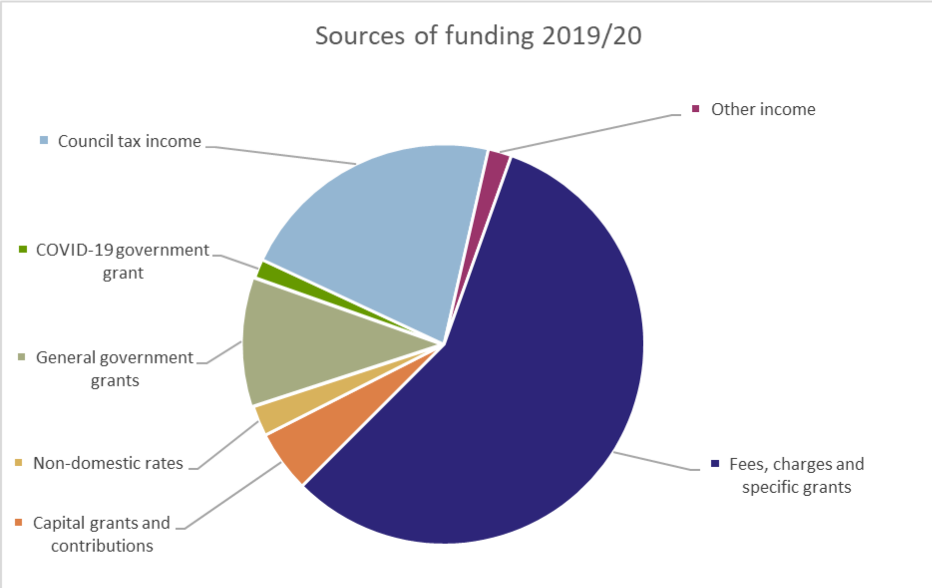
The charts illustrate the funding received, how it was spent on services and also how the reduction in general government grants has resulted in an increased pressure on council tax during recent years.

In 2019/20, the county council was part of a 75% business rates retention pilot, which has resulted in a greater share of business rates income.

The government grants show an increase from the previous years due to the receipt of emergency funding in response to the COVID-19 pandemic.







Revenue outturn

In February 2019, the council approved a net revenue budget of £802.275 million. The revenue budget shows the annual cost of delivering against the council's duties and responsibilities to the community, many of which are given to the council under statute.

The table shows the final outturn position compared to the approved budget.

Service	Approved budget	Outturn	Variation
	£m	£m	£m
Chief executive services	44.617	15.333	(29.284)
Growth, environment and planning	4.261	4.145	(0.116)
Adults	340.705	365.635	24.930
Education and children's services	190.535	191.128	0.593
Public health and wellbeing	(0.485)	(1.175)	(0.690)
Highways and transport	126.025	127.681	1.656
Finance	39.077	38.362	(0.715)
Adult services and public health and wellbeing	7.416	7.208	(0.208)
Strategy and performance	31.096	33.601	2.505
Corporate	19.028	18.616	(0.412)
Sub total	**802.275**	**800.534**	**(1.741)**
Schools	0	2.394	2.394
Total	**802.275**	**802.928**	**0.653**

The final outturn position (excluding schools) of £800.5 million, results in an underspend of £1.7 million compared to the budget. The underspending is largely due to treasury management activity, which has yielded strong returns for the council and lower than budgeted operational costs. This is in part offset by overspending in adults social care services arising from additional price and demand pressures.

The final schools outturn position shows an overspend of £2.4 million against the budget. This is mainly due to the increase in costs of inflation and staffing with significant demand increases relating to students with special educational needs, whilst the school grant funding from government continues to increase at rates below the demand and inflationary pressures.

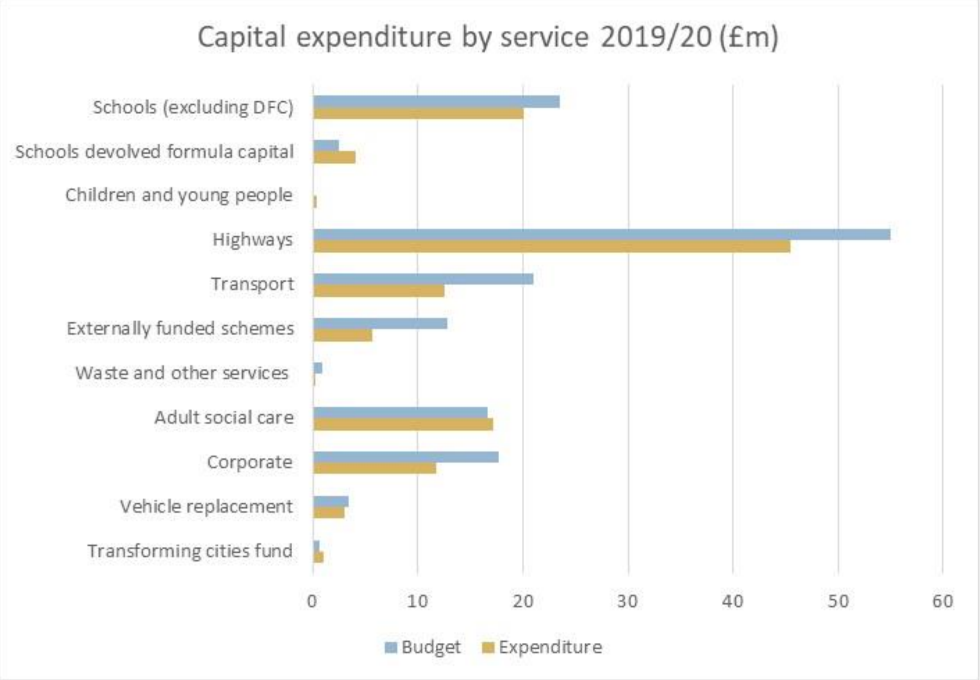
The outturn position is reconciled to the figures shown in the comprehensive income and expenditure statement in Note 5 - expenditure and funding analysis.

Capital investment programme

In February 2019, the council approved an initial capital budget of £130.289 million for 2019/20. The final capital programme for the year following review and subsequent investment decisions totalled £154.196 million, and included:

- Enhancements and improvements to schools, and buildings the council delivers services from including residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in the council's ICT infrastructure to support corporate priorities;
- Investment in waste and recycling facilities;
- Support for schemes to deliver economic growth in the county.

The total spend on capital works in 2019/20 was £121.382 million which represents 78.7% of the budgeted programme. This shows a challenging year for capital delivery where work was delayed due to unforeseeable circumstances, including those relating to the pandemic. Works that were not fully delivered during the year have now been re-profiled to be completed in future years.



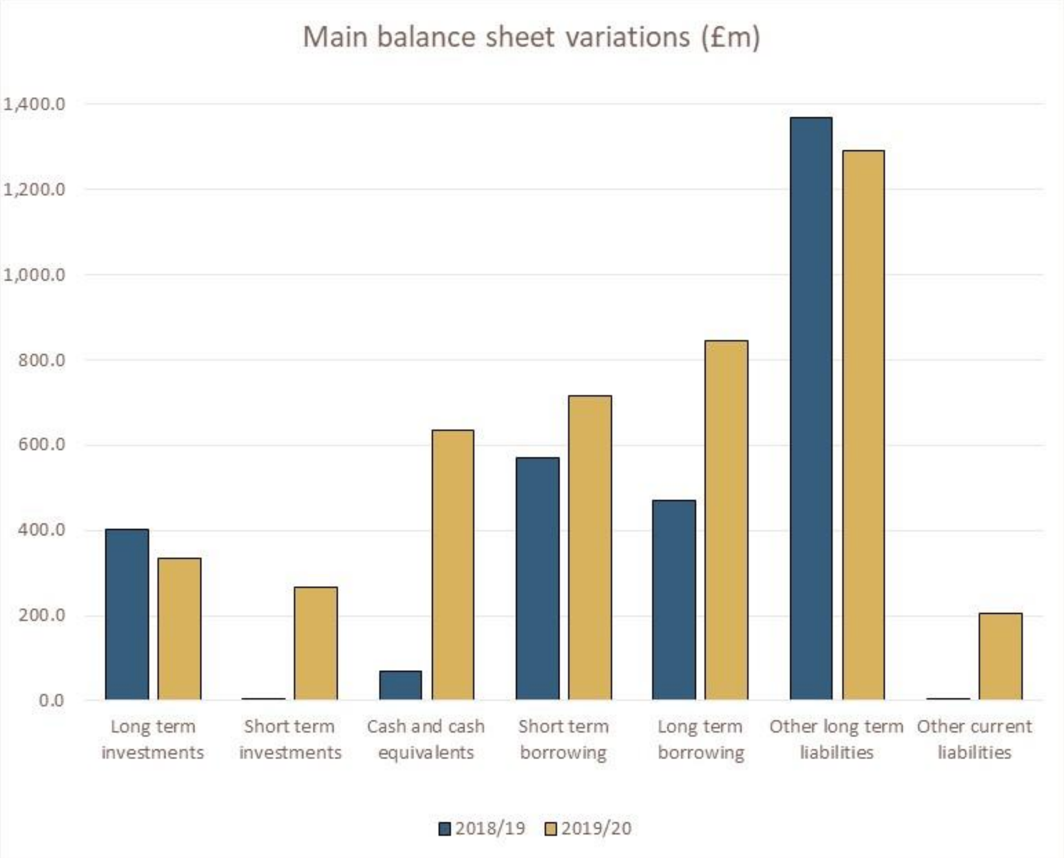
	Revised budget £m	Expenditure £m	Variation £m
Schools (excluding DFC)	23.553	20.120	(3.433)
Schools devolved formula capital	2.500	4.114	1.614
Children and young people	0.011	0.414	0.403
Highways	54.992	45.505	(9.487)
Transport	21.038	12.481	(8.557)
Externally funded schemes	12.851	5.673	(7.178)
Waste and other services	0.871	0.281	(0.590)
Adult social care	16.644	17.126	0.482
Corporate	17.726	11.692	(6.034)
Vehicle replacement	3.360	2.964	(0.396)
Transforming cities fund	0.650	1.012	0.362
Total expenditure	**154.196**	**121.382**	**(32.814)**

Assets and liabilities

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

The net assets of the council have increased by £156.2 million from £1,082.0 million at 31 March 2019 to £1,238.2 million at 31 March 2020.

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



Borrowing and investments

The council has a borrowing requirement arising from current and past years' capital programmes. This is met by a mixture of long and short term borrowing, the balance of which can vary year on year depending upon maturities and market conditions. Decisions made on borrowing will also affect cash available for investments. In March 2020, a bond was issued raising £350 million. The bond issuance together with additional borrowing from PWLB taken in response to potential liquidity issues arising from COVID-19 meant that at 31 March the available cash was higher than previous years.

The potential for loss of income and additional expenditure due to the COVID-19 pandemic meant, investments made tended to be short term in nature towards the end of 2019/20, including greater use of call accounts and short term deposits.

Other long term and current liabilities

The movement in long term liabilities results from a reduction in the PFI liability due to repayments and a decrease in the pension liability valuation.

Other current liabilities includes a liability for a specific transaction whereby the council has agreed to purchase gilts in the future. This transaction aims to reduce market risk as the movement in their price offsets movements in the value of long term bond investments held by the council.

Pension fund liability

The council has a net future pension liability of £1,152 million (£1,261 million as at 31 March 2019) on an International Accounting Standard (IAS) 19 basis.

Actuarial valuations are carried out every three years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 by an independent firm of actuaries.

The most recent actuarial revaluation, as at 31 March 2019, assessed the funding level at 100%.

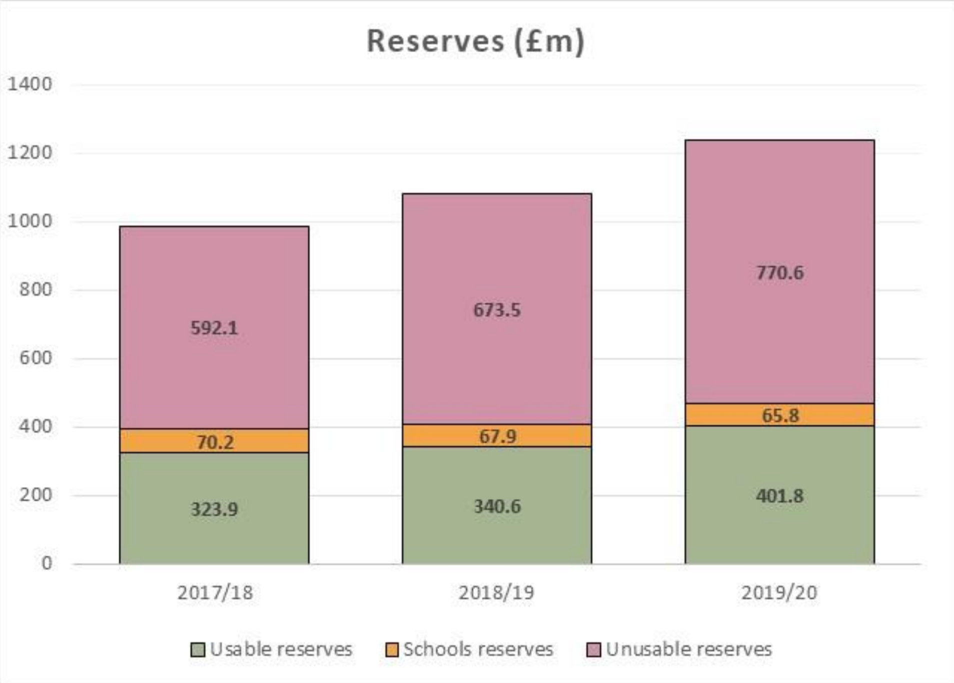
Whilst the pension liability figure is substantial, it should be noted that it does not need to be met immediately. The amount is an assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance.

Further details of the pension liability and assets are set out in the technical annex section of these financial statements.

Reserves

The reserves on the balance sheet represent the council's net worth and are split into usable reserves and unusable reserves.

The following chart shows the balance of reserves over the last three years. Usable reserves are shown in green, unusable reserves are shown in red and reserves belonging to schools are shown in orange.



Usable reserves

Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. The revenue reserves for 2019/20 are higher mainly due to government grant received at the end of the year to fund the COVID-19 response.

Unusable reserves

The council also holds a number of unusable reserves, which arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services. These include unrealised gains and losses, particularly in relation to the revaluation of property, and adjustment accounts, which absorb the timing difference between the outcome of applying accounting practice and the amounts required to be charged to the financial statements under statute. The adjustments are described in more detail in the following 'explanation of the accounting statements' section.

The following accounts normally represent the most significant movements in unusable reserves and are explained further in Note 31:

- Revaluation reserve;
- Pensions reserve;
- Capital adjustment account.

The increase in unusable reserves of £97.1 million is largely due to changes in the pension liability.

Group accounts

The group accounts show the full extent of the county council's economic activities by reflecting the county council's involvement with its group companies. Inclusion in the Lancashire County Council group is dependent upon the extent of the county council's interest and control over the entity. Where an entity is considered to be below materiality levels, it is not included in the group accounts.

In 2019/20, the group accounts include the county council's interest in Lancashire County Developments Limited, which is an economic development agency for the county.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited;
- and Lancashire County Developments (Investments) Limited.

Prior period restatements

The council has restructured its services during 2019/20. The 2018/19 comparative figures have been restated to reflect the new structure.

The 2018/19 figures for long term investments and long term creditors have been amended due to the reclassification of a £1.3 million loan from Lancashire County Council to Lancashire County Developments Limited.

The adjustments are shown in detail in Note 4 – Prior period restatements.

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. International Financial Reporting Standards (IFRS) set out how items should be presented in the statement of accounts, however, these are mainly designed for the private sector so need to be adapted for local government.

In addition, the government makes statutory requirements, which are specific rules that local authorities must follow when they prepare their accounts, which limit the amounts that can be charged to council tax payers.

Comprehensive income and expenditure statement

The comprehensive income and expenditure statement reflects the cost of providing the council’s services in line with accounting practices.

The comprehensive income and expenditure statement has two sections:

The top section reflects the full cost of providing services under International Financial Reporting Standards and shows whether the council's operations resulted in a surplus or deficit.

The bottom section 'other comprehensive income and expenditure' 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

The movement in reserves statement shows the movement from the start to the end of the year on the different reserves held by the council, analysed into usable and unusable reserves. The usable reserves show the resources currently available to spend on services.

As local authorities are tax-raising bodies, they are subject to specific rules as to how tax rates are to be set in relation to the income and expenditure of the council. As outlined above, 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. The movement in reserves statement 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.

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension costs, are charged to council tax. Further details of the adjustments are shown in Note 14 – adjustments between accounting basis and funding basis under regulations.

Expenditure and funding analysis

The expenditure and funding analysis reconciles the outturn position reported to management with the movement in reserves statement and the comprehensive income and expenditure statement, detailing the adjustments described above.

Balance sheet

The balance sheet summarises the council's financial position at the year-end and shows the assets, liabilities and reserves of the council. The council's net assets, represents the value of assets the council would hold after settling all its liabilities, which is balanced by the various 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, financing activities or new investment.

Notes to the financial statements

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

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 Chief Executive and Director of 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 2020.

A Ridgwell

Angie Ridgwell
Chief Executive and Director of Resources
3 March 2021

Approval of accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 19 October 2020.

A Schofield

A Schofield
Chair of Audit, Risk and Governance Committee
3 March 2021

Financial statements

Morecambe bay
Photo: Jacqui White

Comprehensive income and expenditure statement

2018/19 restated				2019/20		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
968.0	(941.3)	26.7	Schools	1,009.2	(957.7)	51.5
38.7	(3.6)	35.1	Chief executive services	60.5	(2.4)	58.1
24.0	(8.6)	15.4	Growth, environment and planning	17.2	(9.8)	7.4
507.2	(155.9)	351.3	Adults	509.5	(135.2)	374.3
215.4	(20.0)	195.4	Education and children's services ◦	225.2	(23.4)	201.8
70.7	(71.5)	(0.8)	Public health and wellbeing ◦	69.9	(69.9)	0
213.7	(51.1)	162.6	Highways and transport ◦	195.7	(48.5)	147.2
60.9	(27.9)	33.0	Finance	70.5	(28.2)	42.3
7.9	(0.5)	7.4	Adult services and public health and wellbeing	8.5	(0.4)	8.1
39.9	(25.8)	14.1	Strategy and performance ◦	56.5	(26.3)	30.2
23.3	(4.9)	18.4	Corporate ◦	25.9	(6.4)	19.5
2,169.7	**(1,311.1)**	**858.6**	**Cost of services**	**2,248.6**	**(1,308.2)**	**940.4**
54.0	(8.8)	45.2	Other operating income and expenditure (Note 6)	72.2	(6.4)	65.8
83.9	(25.0)	58.9	Financing and investment income and expenditure (Note 7)	69.7	(43.4)	26.3
0	(853.5)	(853.5)	Taxation and non-specific grant income and expenditure (Note 8)	0	(946.2)	(946.2)
2,307.6	**(2,198.4)**	**109.2**	**(Surplus)/deficit on provision of services**	**2,390.5**	**(2,304.2)**	**86.3**
		(170.9)	(Surplus)/deficit on revaluation of non-current assets (Note 31)			(60.7)
		(44.1)	Re-measurement of the net defined benefit pension liability/(asset) (Note 31)			(203.6)
		10.0	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			0
		0	(Surplus)/deficit on revaluation of available for sale assets			21.8
		(205.0)	**Other comprehensive income and expenditure**			**(242.5)**
		(95.8)	**Total comprehensive income and expenditure**			**(156.2)**

◦ The council has restructured its services during 2019/20. The 2018/19 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period restatements.

2019/20

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**
Movement in reserves during 2019/20						
Total comprehensive income and expenditure (Note 5)	86.3	0	0	86.3	(242.5)	(156.2)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(111.5)	0.9	(34.8)	(145.4)	145.4	0
(Increase)/decrease in year	**(25.2)**	**0.9**	**(34.8)**	**(59.1)**	**(97.1)**	**(156.2)**
Balance at 31 March 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**

2018/19

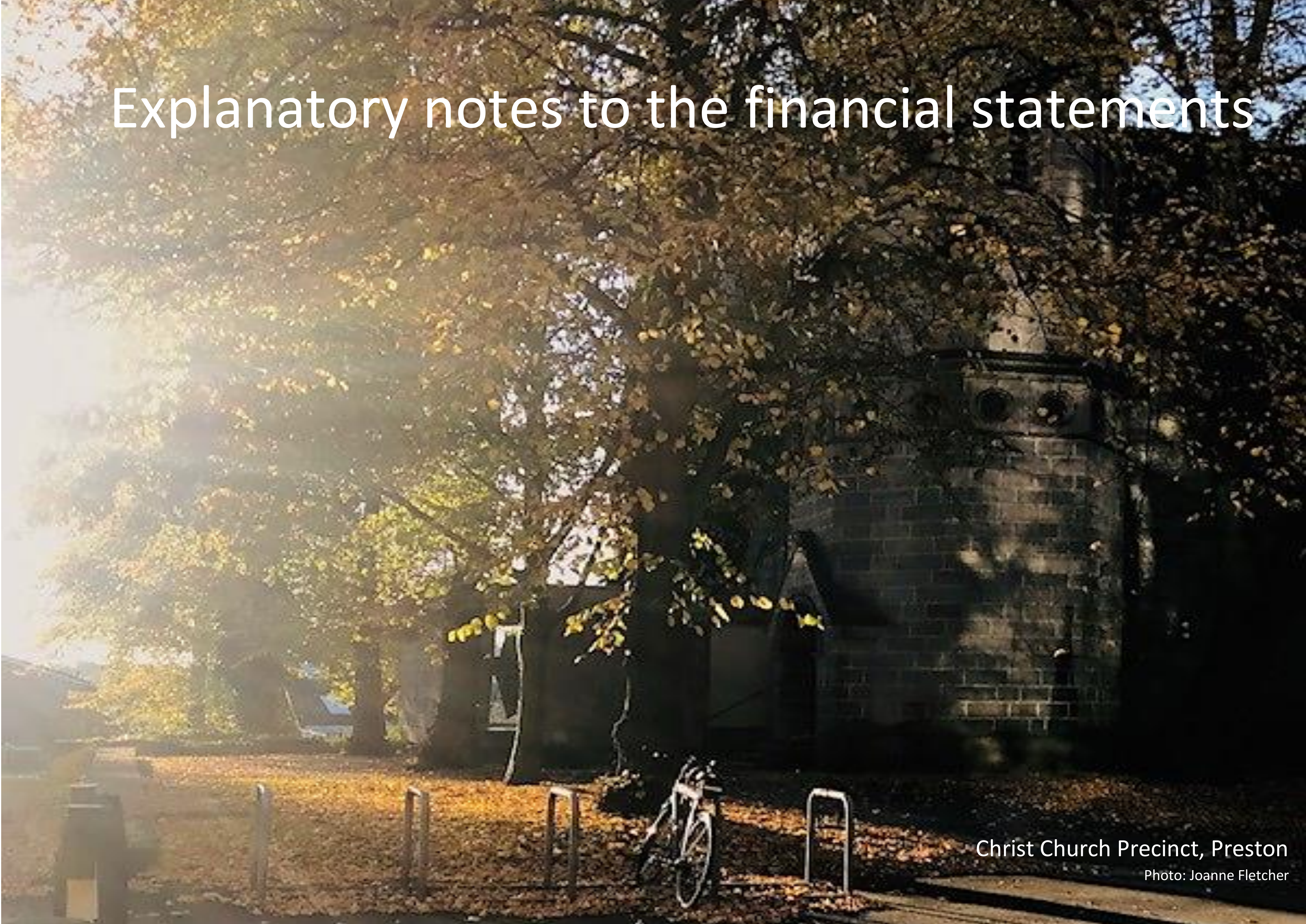
	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**
Movement in reserves during 2018/19						
Total comprehensive income and expenditure (Note 5)	109.2	0	0	109.2	(205.0)	(95.8)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(100.4)	(1.0)	(22.2)	(123.6)	123.6	0
(Increase)/decrease in year	**8.8**	**(1.0)**	**(22.2)**	**(14.4)**	**(81.4)**	**(95.8)**
Balance at 31 March 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**

31 March 2019 restated		Note	31 March 2020
£m			**£m**
3,029.5	Property, plant and equipment	18	3,071.2
28.7	Heritage assets	20	28.7
1.6	Investment properties		0
14.7	Intangible assets		10.9
400.7	Long term investments ◦	26	334.5
44.5	Long term debtors	21	42.9
3,519.7	**Long term assets**		**3,488.2**
0.1	Short term investments	26	266.3
2.7	Inventories		3.4
118.5	Short term debtors	22	164.5
8.5	Payments in advance		23.4
68.5	Cash and cash equivalents	23	634.0
5.5	Assets held for sale		3.7
203.8	**Current assets**		**1,095.3**
(571.3)	Short term borrowing	26	(714.7)
(184.9)	Short term creditors	24	(229.3)
(11.7)	Receipts in advance		(19.4)
(9.3)	Short term provisions	25	(12.9)
(4.9)	Other current liabilities	27	(205.6)
(782.1)	**Current liabilities**		**(1,181.9)**
(18.6)	Long term provisions	25	(24.8)
(471.2)	Long term borrowing	26	(844.8)
(1.3)	Long term creditors ◦	26	(1.3)
(1,368.3)	Other long term liabilities	28	(1,292.5)
(1,859.4)	**Long term liabilities**		**(2,163.4)**
1,082.0	**Net assets**		**1,238.2**
(408.5)	Usable reserves	31	(467.6)
(673.5)	Unusable reserves	31	(770.6)
(1,082.0)	**Total reserves**		**(1,238.2)**

◦ The 2018/19 figures for long term investments and long term creditors have been amended. The adjustments are shown in detail in Note 4 – Prior period restatements.

2018/19 £m		Note	2019/20 £m
(109.2)	Net surplus/(deficit) on the provision of services		(86.3)
213.8	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	241.0
(114.1)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(174.3)
(9.5)	**Net cash flows from operating activities**		**(19.6)**
(19.6)	Investing activities	33	72.7
78.8	Financing activities	34	512.4
49.7	**Net increase/(decrease) in cash or cash equivalents**		**565.5**
18.8	Cash and cash equivalents at the beginning of the reporting period		68.5
68.5	**Cash and cash equivalents at the end of the reporting period**	23	**634.0**

Explanatory notes to the financial statements



Christ Church Precinct, Preston

Photo: Joanne Fletcher

Note 1 - Accounting standards issued, but not yet adopted

The council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2020/21 Code will introduce the following amendments:

Amendments to International Accounting Standard (IAS) 28 *Investments in associates and joint ventures*: long term interests in associates and joint ventures

IFRS 9 *Financial instruments* excludes interests in associates and joint ventures accounted for in accordance with IAS 28 *Investments in associates and joint ventures*. The amendments clarify that a company applies IFRS 9 *Financial instruments* to long term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

This amendment will have no impact on the council's accounts.

Amendments to International Financial Reporting Standard (IFRS) 19 *Employee benefits*: plan amendment, curtailment or settlement

The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement.

This applies to changes arising from 1 April 2020 and therefore the potential impact of this change cannot be quantified.

Annual improvements to IFRS standards 2015 - 2017 cycle

Annual improvements are changes, which clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.

The amendments made during the 2015–2017 cycle are:

IFRS 3 *Business combinations*

The amendments clarify how a company accounts for increasing its interest in a joint operation. When an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value at the date of acquisition.

IFRS 11 *Joint arrangements*

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation subsequently obtains joint control it does not remeasure its previously held interest in the joint operation.

IAS 12 *Income taxes*

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

These amendments will have no impact on the council's accounts.

IFRS 16 *Leases*

IFRS 16 *Leases* will lead to a substantial change in accounting practice for lessees, the current distinction between finance and operating leases will be removed. Instead, lessees are required to recognise assets and liabilities for all leases i.e. the lessee will recognise a right-of-use asset representing its right to use the leased asset; and a lease liability representing the lessee's obligation to make lease payments for the asset.

Lessees will have a single accounting model for all leases with two exemptions:

- Low-value assets
- Short term leases (lease term of 12 months or less)

The implementation of IFRS 16 *Leases* has been deferred until 1 April 2021. The council is currently reviewing its leases to assess the impact of the change.

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:

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 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 £168.5million as at 31 March 2020 (31 March 2019: £152.7 million).

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 £857.2 million, which are not owned by the council. These are principally voluntary aided, voluntary controlled and foundation schools for which the trustees have legal ownership rights. It is the council's policy to include these school assets on the balance sheet as the council benefits from using these properties in terms of delivery of service and meets the costs of service provision. These assets are 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

The council conducts activities through a variety of undertakings, either through 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 on the grounds of control and significant influence.

The council's relationships with other entities can be found within the related parties note. (Note 36).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. Other owned companies have been excluded from the group accounts on the basis that they are not considered material.

The omission of these companies from the group accounts is not considered to affect the ability of a user of the accounts to determine the financial position and performance of the council, or its exposure to risk.

In general, there is a 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 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 2020 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's internal valuers provide valuations as at 1 April based on a 3-year rolling programme of valuations. The valuations are undertaken by qualified valuers 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. The coronavirus pandemic has caused uncertainty around asset valuations. Lockdown in the UK commenced on 23 March 2020. The full effects on the property sector are, as yet, unclear. The immediate impact has been a widespread halt in transactions. This level of valuation uncertainty has caused the RICS to issue the following wording when reporting valuations: *'As at the valuation date, it is considered that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.* *Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case'.*	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. The balance of assets not revalued in year are reviewed 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. A variation of 10% in the value of the council's land and buildings would be approximately £214 million. A reduction in the estimated valuations would result in a reduction to the revaluation reserve and / or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and / or increases to the revaluation reserve and / or gains charged to the comprehensive income and expenditure statement.

	At the current time, it is not possible to accurately predict the longevity and severity of the impact of the COVID-19 pandemic on the economy, nor on the county council's asset values (if any). As such, asset values as at 31 March 2020 are based on property values and build costs pre COVID-19, as there is no evidence available to justify any change in values.	

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 (Mercer) 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. There have been substantial falls in equity markets in March 2020 in relation to the COVID-19 pandemic resulting in a reduction in asset values for accounting purposes. The market falls has also extended to corporate bonds and as a result, the yields on AA-rated corporate bonds has risen by c.0.5% p.a. As the discount rate for accounting purposes is based on corporate bond yields, this rise in yields has resulted in a reduction in the pensions liability. Life expectancy assumptions are shorter compared to previous assumptions leading to some small valuation gains. The council included an estimated additional liability in the accounts for 2018/19 in relation to the McCloud judgement. The difference in the estimated liability from last year is shown as experience gain or loss on liabilities. The COVID-19 pandemic has impacted property asset values as outlined in the property, plant and equipment section above. [#]The pension fund accounts include a material uncertainty over indirect property investment valuations.	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 £379 million; • A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £22 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £121 million. The pension fund liability on the council's balance sheet is indirectly related to the assets held by the pension fund. The pension fund indirectly invests in property assets. As such, the council's estimated proportionate element of these indirect property investments is £291.8 million. A variation of 10% in this value equates to £29 million. However, the council's pension liability estimate is based on a number of assumptions and complex judgements around the discount rate, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates in addition to the expected returns on pension fund assets, made by the council's actuary taking a long term view.

[#] A minor amendment has been made to this text after the version approved by Audit, Risk and Governance Committee on 19 October 2020.

Note 4 – Prior period restatements

Adjustments to the comprehensive income and expenditure statement

In 2019/20 the council has restructured its services. The 2018/19 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

	Net expenditure audited 2018/19	Adjustment	Net expenditure restated 2018/19
	£m	£m	£m
Schools	26.7	0	26.7
Chief executive services	35.1	0	35.1
Growth, environment and planning	15.4	0	15.4
Adults	351.3	0	351.3
Education and children's services	168.4	27.0	195.4
Public health and wellbeing	13.9	(14.7)	(0.8)
Highways and transport	173.7	(11.1)	162.6
Finance	33.0	0	33.0
Adult services and public health and wellbeing	7.4	0	7.4
Strategy and performance	15.0	(0.9)	14.1
Corporate	18.7	(0.3)	18.4
Cost of services	**858.6**	**0**	**858.6**

	Gross expenditure audited 2018/19	Adjustment	Gross expenditure restated 2018/19
	£m	£m	£m
Schools	968.0	0	968.0
Chief executive services	38.6	0.1	38.7
Growth, environment and planning	24.0	0	24.0
Adults	507.2	0	507.2
Education and children's services	183.0	32.4	215.4
Public health and wellbeing	89.6	(18.9)	70.7
Highways and transport	228.8	(15.1)	213.7
Finance	61.0	(0.1)	60.9
Adult services and public health and wellbeing	7.9	0	7.9
Strategy and performance	40.2	(0.3)	39.9
Corporate	21.4	1.9	23.3
Cost of services	**2,169.7**	**0**	**2,169.7**

	Gross income audited 2018/19	Adjustment	Gross income restated 2018/19
	£m	£m	£m
Schools	(941.3)	0	(941.3)
Chief executive services	(3.5)	(0.1)	(3.6)
Growth, environment and planning	(8.6)	0	(8.6)
Adults	(155.9)	0	(155.9)
Education and children's services	(14.6)	(5.4)	(20.0)
Public health and wellbeing	(75.7)	4.2	(71.5)
Highways and transport	(55.1)	4.0	(51.1)
Finance	(28.0)	0.1	(27.9)
Adult services and public health and wellbeing	(0.5)	0	(0.5)
Strategy and performance	(25.2)	(0.6)	(25.8)
Corporate	(2.7)	(2.2)	(4.9)
Cost of services	**(1,311.1)**	**0**	**(1,311.1)**

The following explanatory notes to the accounts have been restated as a result of the prior period restatement:

- Note 5 - Expenditure and funding analysis
- Group comprehensive income and expenditure statement

Adjustments to the balance sheet

The 2018/19 figures for long term investments and long term creditors have been amended due to the reclassification of a £1.3 million loan from Lancashire County Council to Lancashire County Developments Limited.

This was previously shown as the amount owed to Lancashire County Council net of the amount owed to other authorities. This adjustment has increased Lancashire County Council's investment in Lancashire County Developments Limited by £1.3 million with the share due to other authorities now classified as a long term creditor.

	Balance sheet audited 2018/19	Adjustment	Balance sheet restated 2018/19
	£m	**£m**	**£m**
Long term investments	399.4	1.3	400.7
Long term creditors	0	(1.3)	(1.3)
Total	**399.4**	**0**	**399.4**

The following explanatory notes to the accounts have been restated as a result of the prior period restatement:

- Note 26 - financial instruments
- Financial instruments disclosure notes
- Group balance sheet

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the cost of providing services in line with proper accounting practices included in the comprehensive income and expenditure statement with the statutorily defined amounts chargeable to council tax payers as shown in the movement in reserves statement. Proper accounting practices measure the resources that have been generated and consumed in the year, including the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the council's expenditure needs to be met from council tax each year.

Expenditure and funding analysis - 2019/20

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	2.4	0	2.4	49.1	51.5
Chief executive services	15.3	7.5	22.8	35.3	58.1
Growth, environment and planning	4.1	(2.5)	1.6	5.8	7.4
Adults	365.6	0.6	366.2	8.1	374.3
Education and children's services	191.1	1.0	192.1	9.7	201.8
Public health and wellbeing	(1.1)	(0.2)	(1.3)	1.3	0
Highways and transport	127.7	(1.1)	126.6	20.6	147.2
Finance	38.4	1.8	40.2	2.1	42.3
Adult services and public health and wellbeing	7.2	0.2	7.4	0.7	8.1
Strategy and performance	33.6	(18.2)	15.4	14.8	30.2
Corporate	18.6	(0.6)	18.0	1.5	19.5
Net cost of services	**802.9**	**(11.5)**	**791.4**	**149.0**	**940.4**
Other income and expenditure	(802.3)	(14.3)	(816.6)	(37.5)	(854.1)
(Surplus)/deficit	**0.6**	**(25.8)**	**(25.2)**	**111.5**	**86.3**
Opening general fund balance at 1 April			**(308.6)**		
(Surplus)/deficit			(25.2)		
Closing general fund balance at 31 March			**(333.8)**		

Notes supporting the comprehensive income and expenditure statement

Expenditure and funding analysis - 2018/19 - restated

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	2.3	0	2.3	24.4	26.7
Chief executive services	4.3	14.5	18.8	16.3	35.1
Growth, environment and planning	3.2	(1.4)	1.8	13.6	15.4
Adults	345.0	(6.2)	338.8	12.5	351.3
Education and children's services ◦	184.2	1.8	186.0	9.4	195.4
Public health and wellbeing ◦	(2.4)	(0.2)	(2.6)	1.8	(0.8)
Highways and transport ◦	125.1	2.3	127.4	35.2	162.6
Finance	32.4	0.5	32.9	0.1	33.0
Adult services and public health and wellbeing	6.4	0.3	6.7	0.7	7.4
Strategy and performance ◦	29.5	(19.1)	10.4	3.7	14.1
Corporate ◦	17.7	0.3	18.0	0.4	18.4
Net cost of services	**747.7**	**(7.2)**	**740.5**	**118.1**	**858.6**
Other income and expenditure	(764.6)	32.9	(731.7)	(17.7)	(749.4)
(Surplus)/deficit	**(16.9)**	**25.7**	**8.8**	**100.4**	**109.2**
Opening general fund balance at 1 April			**(317.4)**		
(Surplus)/deficit			8.8		
Closing general fund balance at 31 March			**(308.6)**		

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

◦ The 2018/19 figures have been restated following the changes detailed in Note 4 – Prior period adjustments.

Adjustments to arrive at the net amount chargeable to the general 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. levies, reserve transactions, finance and investment income and expenditure.

2018/19 Restated				2019/20		
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
(11.9)	26.4	14.5	Chief executive services ◦	16.9	(9.4)	7.5
(0.4)	(1.0)	(1.4)	Growth, environment and planning	(0.4)	(2.1)	(2.5)
(1.1)	(5.1)	(6.2)	Adults	0	0.6	0.6
1.7	0.1	1.8	Education and children's services ◦	2.2	(1.2)	1.0
(0.1)	(0.1)	(0.2)	Public health and wellbeing ◦	(0.1)	(0.1)	(0.2)
(1.1)	3.4	2.3	Highways and transport ◦	(0.8)	(0.3)	(1.1)
(0.1)	0.6	0.5	Finance	0.1	1.7	1.8
0	0.3	0.3	Adult services and public health and wellbeing	0	0.2	0.2
(15.5)	(3.6)	(19.1)	Strategy and performance ◦	(14.4)	(3.8)	(18.2)
0	0.3	0.3	Corporate ◦	0	(0.6)	(0.6)
(28.5)	**21.3**	**(7.2)**	**Net cost of services**	**3.5**	**(15.0)**	**(11.5)**
28.5	4.4	32.9	Other income and expenditure	(3.5)	(10.8)	(14.3)
0	**25.7**	**25.7**	**(Surplus)/deficit**	**0**	**(25.8)**	**(25.8)**

◦ The 2018/19 figures have been restated following the changes detailed in Note 4 – Prior period adjustments.

Notes to the expenditure and funding analysis

The adjustments between the funding and accounting basis shown 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.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. 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 statutory adjustments

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 general 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 - 2019/20

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	£m	£m	£m
Schools	19.8	25.0	4.3	49.1
Chief executive services	14.7	20.5	0.1	35.3
Growth, environment and planning	5.2	0.6	0	5.8
Adults	0.8	7.5	(0.2)	8.1
Education and children's services	9.2	1.0	(0.5)	9.7
Public health and wellbeing	0.5	0.8	0	1.3
Highways and transport	15.5	5.2	(0.1)	20.6
Finance	0.9	0.8	0.4	2.1
Adult services and public health and wellbeing	0	0.7	0	0.7
Strategy and performance	10.7	3.5	0.6	14.8
Corporate	0	1.2	0.3	1.5
Net cost of services	**77.3**	**66.8**	**4.9**	**149.0**
Other income and expenditure from the expenditure and funding analysis	(63.4)	28.8	(2.9)	(37.5)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**13.9**	**95.6**	**2.0**	**111.5**

Adjustments between the funding and accounting basis - 2018/19 - restated

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	£m	£m	£m
Schools	(7.9)	34.6	(2.3)	24.4
Chief executive services ◦	13.7	2.6	0	16.3
Growth, environment and planning	13.0	0.6	0	13.6
Adults	1.8	10.5	0.2	12.5
Education and children's services ◦	4.8	4.0	0.6	9.4
Public health and wellbeing ◦	0	1.8	0	1.8
Highways and transport ◦	27.7	7.4	0.1	35.2
Finance	0.1	0.3	(0.3)	0.1
Adult services and public health and wellbeing	0	0.7	0	0.7
Strategy and performance ◦	2.1	1.8	(0.2)	3.7
Corporate ◦	0	0.3	0.1	0.4
Net cost of services	**55.3**	**64.6**	**(1.8)**	**118.1**
Other income and expenditure from the expenditure and funding analysis	(63.8)	29.7	16.4	(17.7)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(8.5)**	**94.3**	**14.6**	**100.4**

◦ The 2018/19 figures have been restated following the changes detailed in Note 4 – Prior period adjustments.

Expenditure and income analysed by nature

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

2018/19		2019/20
£m		**£m**
825.7	Employee expenses (excluding voluntary aided schools)	850.4
231.8	Employee expenses for voluntary aided schools	251.0
1,085.1	Other service expenses	1,092.5
26.9	Depreciation, amortisation and impairment	54.6
54.4	Interest payments	41.0
1.1	Precepts and levies	1.1
29.7	Net pension interest costs	28.7
52.9	Gain or loss on disposal of non-current assets	71.2
2,307.6	**Total expenditure**	**2,390.5**
(268.0)	Fees, charges and other service income	(268.4)
(24.9)	Interest and investment income	(43.4)
(473.3)	Income from council tax precept	(498.1)
(30.5)	Income from non-domestic- rates precept	(56.3)
(1,401.7)	Government grants and contributions	(1,438.0)
(2,198.4)	**Total income**	**(2,304.2)**
109.2	**(Surplus)/deficit on the provision of services**	**86.3**

Note 6 - Other operating income and expenditure

2018/19		2019/20
£m		**£m**
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(0.3)	Other operating (income)/expenditure	0.3
(0.1)	Net (gains)/losses on the disposal of non-current assets	4.2
44.5	Loss on transfer of schools to academy status	60.2
45.2	**Total**	**65.8**

Note 7 - Financing and investment income and expenditure

2018/19		2019/20
£m		**£m**
20.2	Interest payable and other similar charges	26.6
15.3	Interest payable on PFI unitary payments	14.2
16.7	Premium on early repayment of debt *	0
2.2	Impairment of financial instruments	0.2
29.7	Net interest of the net defined benefit liability	28.7
(24.9)	Interest receivable and similar income	(43.4)
(0.3)	Changes in the fair value of investment properties	0
58.9	**Total**	**26.3**

* The premium on early repayment of debt includes the redemption of the council's Lender Option Borrower Option (LOBO) loans.

Note 8 - Taxation and non-specific grant income

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

2018/19 £m		2019/20 £m
(252.9)	Non-ringfenced Government grants	(276.0)
(96.8)	Capital grants and contributions	(115.8)
(349.7)	**Total non-specific grant income**	**(391.8)**
(473.3)	Council tax income	(498.1)
(30.5)	Non-domestic rates income	(56.3)
(853.5)	**Total**	**(946.2)**

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

Non-ringfenced government grants

2018/19 £m		2019/20 £m
(57.0)	Revenue support grant	0
(152.7)	Top-up grant (business rates retention scheme)	(164.6)
(7.1)	S31 grant	(14.4)
(2.0)	Education services grant	(2.1)
(22.7)	Improved better care	(40.0)
(3.4)	Adult social care	(14.9)
(3.8)	New homes bonus	(3.6)
0	COVID-19 grant	(35.3)
(4.2)	Other	(1.1)
(252.9)	**Total**	**(276.0)**

Capital grants and contributions

2018/19		2019/20
£m		**£m**
(43.6)	Department for transport	(43.7)
(27.4)	Department of education	(32.2)
(13.7)	Ministry of housing, communities and local government	(14.7)
(3.0)	Other government grants	(3.1)
(9.1)	Other grants	(20.4)
0	Other contributions	(0.5)
0	Donated assets	(1.2)
(96.8)	**Total**	**(115.8)**

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.

2018/19		2019/20
£m		**£m**
(800.6)	Dedicated schools grant	(804.1)
(45.3)	Pupil premium grant	(44.4)
(89.5)	Other Government grants	(93.8)
(21.9)	PFI grant	(21.9)
(68.4)	Public health grant	(66.6)
0	Other grants	(0.2)
(26.3)	Other contributions	(15.2)
(1,052.0)	**Total**	**(1,046.2)**

Note 10 - Dedicated schools grant

	Central expenditure	Individual schools budget	Total
	£m	**£m**	**£m**
Final DSG for 2019/20 before academy recoupment			(949.1)
Academy figure recouped for 2019/20			145.0
Total DSG after academy recoupment for 2019/20			**(804.1)**
Brought forward from 2018/19			(12.8)
Carry forward to 2020/21 agreed in advance			0
Agreed initial budgeted distribution for 2019/20	**(41.5)**	**(775.4)**	**(816.9)**
In-year adjustments	0	11.1	11.1
Final budget distribution for 2019/20	**(41.5)**	**(764.3)**	**(805.8)**
Actual central expenditure relating to DSG	30.4		30.4
Actual ISB deployed to schools		764.3	764.3
Carry forward to 2020/21	**(11.1)**	**0**	**(11.1)**

The council’s expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

The table details how the DSG receivable for 2019/20 has been utilised.

Note 11 - Officers' remuneration

The remuneration of senior employees, defined as members of the Corporate Management Team, those holding statutory posts or those reporting directly to the Head of Paid Service is set out below.

2019/20

Post holder	Note	Salary, fees and allowances	Benefits in kind	Pension contributions	Total
		£	£	£	£
Chief Executive and Director of Resources (S151) - A Ridgwell		216,323	0	0	216,323
Executive Director of Adult Services and Health & Wellbeing		142,452	0	20,706	163,158
Executive Director for Education and Children's Services - E Grant		168,501	0	0	168,501
Executive Director of Growth, Environment and Transport		136,950	0	19,879	156,829
Director of Corporate Services		96,825	7,779	14,621	119,225
Director of Finance		100,871	6,537	15,231	122,639
Director of Property Services		118,514	11,629	17,896	148,039
Director of Public Health		127,352	0	17,551	144,903
Head of Communications	1	16,300	0	2,461	18,761
Interim Head of Communications	2	8,416	0	1,271	9,687
Head of Service Communications	3	43,416	0	6,556	49,972

Notes
1 The Head of Communications post was appointed to with effect from 2 January 2020.
2 The Head of Communications post was held on an interim basis from 16 November 2019 and until 1 January 2020.
3 The Head of Service - Communications postholder left the council on 15 November 2019,

2018/19

Post holder	Note	Salary, fees and allowances	Benefits in kind	Pension contributions	Total
		£	£	£	£
Chief Executive and Director of Resources (Section 151 officer) - A Ridgwell	1	206,728	0	0	206,728
Executive Director of Adult Services and Health & Wellbeing		134,434	5,509	20,300	160,243
Executive Director of Education and Children's Services – E Grant	2	47,990	0	0	47,990
Executive Director of Growth, Environment and Transport	3	118,607	0	17,174	135,781
Director of Community Services	4	8,521	0	1,220	9,741
Director of Corporate Services		92,434	5,876	13,958	112,268
Director of Economic Development and Planning	4	8,080	816	1,220	10,116
Director of Finance		96,912	6,216	14,634	117,762
Director of Programmes and Project Management	4	8,359	0	1,196	9,555
Director of Property Services	5	88,500	7,404	13,363	109,267
Director of Public Health		124,958	0	17,207	142,165
Director of Strategy and Performance	6	19,076	1,574	2,880	23,530
Head of Service – Communications		67,097	0	10,132	77,229

Notes

1 The Interim Chief Executive and Director of Resources (S151) was appointed to the post of Chief Executive and Director of Resources (S151) with effect from 18 October 2018.

2 The Executive Director of Education and Children's Services was appointed on 18th December 2018. The post was undertaken on an interim basis between January and December 2018.

3 The Executive Director of Growth, Environment and Transport is a new post appointed to with effect from 30 April 2018.

4 The Director of Community Services, the Director of Economic Development and Planning and the Director of Programmes and Project Management reported to the Interim Chief Executive and Director of Resources (S151) until 30 April 2018, when the new Executive Director of Growth, Environment and Transport commenced in post.

5 The post of Director of Property Services was disestablished with effect from 31 January 2019.

6 The Director of Strategy and Performance is a new post established with effect from 1 February 2019.

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

	2019/20				2018/19			
Remuneration Banding £	**LCC non-schools staff [1]**	**Schools [2]**	**Total**	**Redundancies**	**LCC non-schools staff [1]**	**Schools [2]**	**Total**	**Redundancies**
50,000 to 54,999	138	358	496	5	46	336	382	5
55,000 to 59,999	39	265	304	3	49	239	288	5
60,000 to 64,999	30	183	213	1	25	177	202	1
65,000 to 69,999	28	108	136	1	38	93	131	2
70,000 to 74,999	34	64	98	2	18	39	57	0
75,000 to 79,999	2	22	24	1	0	11	11	0
80,000 to 84,999	0	16	16	0	2	15	17	0
85,000 to 89,999	2	11	13	2	1	13	14	0
90,000 to 94,999	0	11	11	0	2	8	10	0
95,000 to 99,999	2	6	8	0	0	4	4	0
100,000 to 104,999	0	6	6	0	0	1	1	0
105,000 to 109,999	0	1	1	0	0	4	4	0
110,000 to 114,999	1	1	2	0	1	1	2	0
115,000 to 119,999	0	1	1	0	0	0	0	0
120,000 to 124,999	0	0	0	0	1	0	1	0
130,000 to 134,999	1	0	1	0	0	0	0	0
145,000 to 149,999	0	0	0	0	1	0	1	1
150,000 to 154,999	1	0	1	0	1	0	1	0
Total	**278**	**1,053**	**1,331**	**15**	**185**	**941**	**1,126**	**14**

[1] This table excludes staff in 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.

Exit packages

	No. compulsory redundancies		No. other exit packages		Total number		Total cost £000 *	
Banding (£)	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**
0 to 20,000	52	39	249	259	301	298	1,910	1,835
20,001 to 40,000	6	1	8	25	14	26	333	670
40,001 to 60,000	2	1	2	4	4	5	202	237
60,001 to 100,000	2	4	4	0	6	4	456	273
100,001 to 150,000	0	0	3	2	3	2	381	257
150,001 to 200,000	2	0	0	0	2	0	348	0
Total	**64**	**45**	**266**	**290**	**330**	**335**	**3,630**	**3,272**

* In some cases this reflects an estimate as at 31 March and may not be the actual amount paid.

When a council employee's contract is terminated, there are a number of costs that the council can incur. The total cost in this table includes;

- Enhanced pension benefits
  This is a payment to compensate the pension fund for both the employer and employee contributions that will not be received due to the early payment of benefits. It occurs where the employee is able to immediately receive any benefits they have built up on the pension fund. The payment is calculated by an independent actuary and is not made to the individual.

- Redundancy payments
  These are received by the employee and are calculated in line with the relevant policies agreed by the council.

During 2019/20, the Council terminated the contracts of a number of employees, incurring liabilities of £3.6 million (2018/19: £3.3 million). Of the £3.6 million, £1.3 million is enhanced pension benefits and £2.3 million is payable to the employees. The table shows the number of exit packages and total cost to the Council per band.

Note 12 - Members' allowances

2018/19		2019/20
£000		**£000**
1,283	Allowances payable to Members	1,272
60	Expenses payable to Members	48
1,343	**Total**	**1,320**

Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

2018/19		2019/20
£000		**£000**
87	Fees incurred with regard to external audit services provided by Grant Thornton	87
4	Fees incurred for certification work undertaken by Grant Thornton #	4
9	Fees payable in respect of other services provided by Grant Thornton	9
0	Reimbursement from Public Sector Audit Appointment	(10)
100	**Total**	**90**

A minor amendment has been made to this text after the version approved by Audit, Risk and Governance Committee on 19 October 2020.

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 31, which details the movements in reserves.

Adjustments between accounting basis and funding basis under regulations - 2019/20

	Usable reserves				Unusable reserves
	General fund 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)	(95.6)	0	0	(95.6)	95.6
Financial instruments (transferred to the financial instruments adjustments account)	3.7	0	0	3.7	(3.7)
Council tax and NDR (transferred to or from the collection fund)	(0.7)	0	0	(0.7)	0.7
Holiday pay (transferred to the accumulated absences adjustment account)	(5.0)	0	0	(5.0)	5.0
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)	(106.5)	0	39.0	(67.5)	67.5
Total adjustments to revenue resources	**(204.1)**	**0**	**39.0**	**(165.1)**	**165.1**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	(1.0)	0.9	0	(0.1)	0.1
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	19.8	0	0	19.8	(19.8)
Total adjustments between revenue and capital resources	**18.8**	**0.9**	**0**	**19.7**	**(19.7)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	73.8	0	(73.8)	0	0
Total adjustments to capital resources	**73.8**	**0**	**(73.8)**	**0**	**0**
Total adjustments	**(111.5)**	**0.9**	**(34.8)**	**(145.4)**	**145.4**

Adjustments between accounting basis and funding basis under regulations - 2018/19

	Usable reserves				Unusable reserves
	General fund 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)	(94.3)	0	0	(94.3)	94.3
Financial instruments (transferred to the financial instruments adjustments account)	(13.5)	0	0	(13.5)	13.5
Council tax and NDR (transferred to or from the collection fund)	(3.0)	0	0	(3.0)	3.0
Holiday pay (transferred to the accumulated absences adjustment account)	1.9	0	0	1.9	(1.9)
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)	(60.7)	0	27.7	(33.0)	33.0
Total adjustments to revenue resources	**(169.6)**	**0**	**27.7**	**(141.9)**	**141.9**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	1.0	(1.0)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	18.3	0	0	18.3	(18.3)
Total adjustments between revenue and capital resources	**19.3**	**(1.0)**	**0**	**18.3**	**(18.3)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	49.9	0	(49.9)	0	0
Total adjustments to capital resources	**49.9**	**0**	**(49.9)**	**0**	**0**
Total adjustments	**(100.4)**	**(1.0)**	**(22.2)**	**(123.6)**	**123.6**

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2018	Transfers out 2018/19	Transfers in 2018/19	Balance at 31 March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
General fund	(23.4)	0	0	(23.4)	0	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(3.8)	2.8	(1.1)	(2.1)	0.3	(4.0)	(5.8)
Reserves held to deliver organisational change							
Downsizing reserve	(13.9)	6.4	0	(7.5)	1.8	0	(5.7)
Risk management reserve	(5.5)	4.7	(2.1)	(2.9)	0.9	0	(2.0)
Transitional reserve	(155.0)	58.6	(67.8)	(164.2)	18.0	(5.0)	(151.2)
School reserves							
Individual school reserves	(44.2)	1.4	0	(42.8)	10.9	(15.5)	(47.4)
Other school reserves	(20.9)	11.6	(10.6)	(19.9)	7.5	(0.5)	(12.9)
Centrally managed schools maintenance reserve	(5.1)	5.1	(5.2)	(5.2)	5.2	(5.5)	(5.5)
Reserves held to meet service priorities							
Treasury management reserve	(10.0)	0	0	(10.0)	0	(1.6)	(11.6)
Directorate reserves	(35.1)	17.4	(12.0)	(29.7)	10.3	(47.6)	(67.0)
Election reserve	(0.5)	0.6	(1.0)	(0.9)	0	(0.4)	(1.3)
Total earmarked revenue and capital reserves	**(317.4)**	**108.6**	**(99.8)**	**(308.6)**	**54.9**	**(80.1)**	**(333.8)**

Reserves held to deliver corporate priorities

Strategic investment reserve

This reserve is held to support investment in areas such as economic development and also supports delivery of priorities within the corporate strategy.

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 four 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 is primarily in place to support forecast funding shortfalls in future year budgets as outlined in the medium term financial strategy. The reserve also contains funding to support service transformation as agreed by Cabinet.

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. Some of these reserves are not only the funds of the county council and could relate to partners.

Note 16 - Capital expenditure and capital financing

31 March 2019		31 March 2020
£m		£m
1,042.9	**Opening capital financing requirement**	**1,070.2**
	Capital investment	
91.8	Property, plant and equipment	99.4
0.5	Intangible assets	0.6
28.2	Revenue expenditure funded from capital under statute	22.5
120.5	**Total capital investment**	**122.5**
	Sources of finance	
(74.7)	Government grants and other contributions	(80.9)
	Sums set aside from revenue:	
(0.1)	Direct revenue contributions	(0.3)
(5.9)	Write down of PFI liability	(4.9)
(12.5)	Minimum revenue provision (MRP) for debt repayment	(14.9)
1,070.2	**Closing capital financing requirement**	**1,091.7**
	Explanation of movement in year	
33.2	Increase in underlying need to borrow (unsupported by Government financial assistance)	26.4
(5.9)	Write down of PFI liability	(4.9)
27.3	**Total movement**	**21.5**

The total amount of capital expenditure incurred in the year is shown 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.

Note 17 - Capital contractual commitments

At 31 March 2020, the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2020/21 or future years. (2018/19: £nil)

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 under construction	Surplus assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	**87.4**	**79.0**	**1,170.6**	**2.5**	**0**	**1,339.5**
Valued at current value as at:						
31 March 2020	980.5				26.8	1,007.3
31 March 2019	663.7				0	663.7
31 March 2018	396.9				0	396.9
Total cost or valuation	**2,128.5**	**79.0**	**1,170.6**	**2.5**	**26.8**	**3,407.4**

Property, plant and equipment - movements in 2019/20

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2019	**2,126.3**	**73.8**	**1,106.7**	**7.8**	**23.7**	**3,338.3**	**158.0**
Additions	29.9	5.2	61.4	2.5	0.4	**99.4**	0.3
De-recognition – disposals	(67.1)	0	0	0	(1.4)	**(68.5)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	38.3	0	0	0	(0.3)	**38.0**	5.7
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	1.1	0	0	0	0.5	**1.6**	9.3
Assets reclassified *	0	0	2.5	(7.8)	3.9	**(1.4)**	0
At 31 March 2020	**2,128.5**	**79.0**	**1,170.6**	**2.5**	**26.8**	**3,407.4**	**173.3**
Depreciation and impairment							
At 1 April 2019	**(104.4)**	**(44.6)**	**(159.7)**	**0**	**(0.1)**	**(308.8)**	**(5.3)**
Depreciation charge	(30.3)	(6.1)	(19.3)	0	(0.1)	**(55.8)**	0.5
Depreciation written out to revaluation reserve	22.7	0	0	0	0	**22.7**	0.6
Depreciation written out to the surplus/deficit on provision of services	3.9	0	0	0	0	**3.9**	(0.6)
De-recognition	1.8	0	0	0	0	**1.8**	0
At 31 March 2020	**(106.3)**	**(50.7)**	**(179.0)**	**0**	**(0.2)**	**(336.2)**	**(4.8)**
At 1 April 2019	**2,021.9**	**29.2**	**947.0**	**7.8**	**23.6**	**3,029.5**	**152.7**
At 31 March 2020	**2,022.2**	**28.3**	**991.6**	**2.5**	**26.6**	**3,071.2**	**168.5**

* The £1.4 million balance on assets reclassified relates to assets held for sale.

Property, plant and equipment - movements in 2018/19

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2018	**1,963.7**	**90.2**	**1,053.4**	**3.5**	**25.2**	**3,136.0**	**126.3**
Additions	27.7	6.5	53.1	4.5	0	**91.8**	0
De-recognition – disposals	(47.7)	(22.8)	0	0	(0.5)	**(71.0)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	149.7	0	0	0	1.1	**150.8**	3.1
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	35.6	(0.1)	0	0	(2.4)	**33.1**	28.6
Assets reclassified *	(2.7)	0	0.2	(0.2)	0.3	**(2.4)**	0
At 31 March 2019	**2,126.3**	**73.8**	**1,106.7**	**7.8**	**23.7**	**3,338.3**	**158.0**
Depreciation and impairment							
At 1 April 2018	**(94.6)**	**(60.7)**	**(142.5)**	**0**	**(0.1)**	**(297.9)**	**(2.5)**
Depreciation charge	(34.1)	(6.3)	(17.2)	0	**0**	**(57.6)**	(2.8)
Depreciation written out to revaluation reserve	20.0	0	0	0	**0**	**20.0**	0.5
Depreciation written out to the surplus/deficit on provision of services	3.2	0.1	0	0	**0**	**3.3**	(0.5)
De-recognition	1.1	22.3	0	0	**0**	**23.4**	0
At 31 March 2019	**(104.4)**	**(44.6)**	**(159.7)**	**0**	**(0.1)**	**(308.8)**	**(5.3)**
At 1 April 2018	**1,869.1**	**29.5**	**910.9**	**3.5**	**25.1**	**2,838.1**	**123.8**
At 31 March 2019	**2,021.9**	**29.2**	**947.0**	**7.8**	**23.6**	**3,029.5**	**152.7**

* The £2.4 million balance on assets reclassified relates to assets held for sale.

Note 19 - School assets

Schools included on the council's balance sheet

31 March 2019 Restated			31 March 2020	
Number of schools	**Value of land and buildings**		**Number of schools**	**Value of land and buildings**
	£m			**£m**
253	779.3	Community schools *	251	796.2
11	110.4	Foundation schools	11	120.0
267	641.0	Voluntary aided schools	261	617.3
50	117.9	Voluntary controlled schools	50	119.9
581	**1,648.6**	**Total**	**573**	**1,653.4**
14	152.7	Schools included above subject to PFI contracts	14	168.5

* The 2018/19 figure for community schools has been restated to reflect 3 disposals which took place last year.

The table shows the number and values associated with each type of school included within the council's balance sheet.

The number of schools has reduced as eight schools chose to take up academy status in 2019/20.

The council has 14 schools subject to PFI contracts, the buildings for which are shown on the council's balance sheet together with the related liability.

Note 20 - Heritage assets

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2020	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2019	**3.0**	**11.1**	**14.6**	**28.7**

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 relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a libraries special collection that 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.

Note 21 - Long term debtors

31 March 2019		31 March 2020
£m		£m
14.2	Transferred Debt [1]	13.7
30.3	Finance Lease Debtor [2]	29.2
44.5	**Total**	**42.9**

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 30).

Note 22 - Short term debtors

31 March 2019		31 March 2020
£m		£m
19.4	Council tax	21.8
0.8	Non-domestic rates	1.7
16.5	Other receivables	27.7
100.0	Trade receivables	131.7
(18.2)	Less impairment allowance	(18.4)
118.5	**Total**	**164.5**

Note 23 - Cash and cash equivalents

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

31 March 2019		31 March 2020
£m		£m
0.3	Cash held by the council	0.3
(27.9)	Bank current accounts	(61.1)
96.1	Short term deposits under 3 months	694.8
68.5	**Total**	**634.0**

Note 24 - Short term creditors

31 March 2019		31 March 2020
£m		£m
(116.9)	Trade payables	(151.0)
(18.2)	Council tax	(21.3)
(0.5)	Non domestic rates	(0.1)
(49.3)	Other payables	(56.9)
(184.9)	**Total**	**(229.3)**

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 2019	Additional provision made in 2019/20	Spending met from the provision in 2019/20	Unused amounts reversed in 2019/20	Balance at 31 March 2020
	£m	£m	£m	£m	£m
Insurance provision	(14.6)	(13.2)	6.9	0	(20.9)
MMI provision	(2.8)	0	0	0	(2.8)
Other long term provisions	(1.2)	(0.5)	0.6	0	(1.1)
Total long term provisions	**(18.6)**	**(13.7)**	**7.5**	**0**	**(24.8)**
Business rates appeals	(5.4)	(3.9)	0	0	(9.3)
Early retirement	(0.1)	(0.1)	0.1	0	(0.1)
Other short term provisions	(3.8)	(0.7)	0.8	0.2	(3.5)
Total short term provisions	**(9.3)**	**(4.7)**	**0.9**	**0.2**	**(12.9)**
Total provisions	**(27.9)**	**(18.4)**	**8.4**	**0.2**	**(37.7)**

Insurance provision

Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance, which are below the insurance excess and the 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. Financial instruments are classified based on the council's business model for holding the instrument and their cash flow characteristics.

Full disclosure notes in respect of financial instruments are provided in the technical annex.

The disclosures include:

- Gains and losses on financial instruments;
- Fair value of assets and liabilities;
- The nature and extent of risks arising from financial instruments.

Financial assets

Financial assets should be classified and measured at fair value, with changes in fair value recognised in the profit and loss as they arise (FVPL), unless specific criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income (FVOCI).

Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows) comprising:

- cash in hand;
- bank current;
- loans to other local authorities;
- loans to companies;
- lease receivables, and
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to both collect those cash flows and sell the instrument; and equity investments that the council has elected into this category). These assets are measured and carried at fair value with gains and losses due to changes in fair value charged to the financial instruments revaluation reserve until the asset is disposed of and the gain or loss is charged to the comprehensive income and expenditure statement.

These assets comprise bonds issued by banks, building societies and the UK government.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.

31 March 2019 Restated				**31 March 2020**		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
124.4	0.1	**124.5**	Amortised cost ◦	33.9	97.1	**131.0**
276.3	0	**276.3**	Financial assets at fair value through other comprehensive income	300.6	0	**300.6**
0	0	**0**	Financial assets at fair value through profit and loss	0	169.2	**169.2**
400.7	**0.1**	**400.8**	**Total investments**	**334.5**	**266.3**	**600.8**
0	68.5	**68.5**	Cash and cash equivalents	0	634.0	**634.0**
30.3	81.9	**112.2**	Debtors #	29.2	113.3	**142.5**
431.0	**150.5**	**581.5**	**Total financial assets**	**363.7**	**1,013.6**	**1,377.3**
# 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 – payments in advance and non-exchange transactions						
14.2	*36.6*	*50.8*	*Debtors which do not meet the definition of a financial instrument*	*13.7*	*51.2*	*64.9*
44.5	*118.5*	*163.0*	*Balance sheet total*	*42.9*	*164.5*	*207.4*

◦ The 2018/19 financial assets at amortised cost figures have been restated following the changes detailed in Note 4 – Prior period restatements.

Financial liabilities

The majority of the council's financial liabilities held during the year are measured at amortised cost and comprise:

- short term loans from other local authorities;
- long term loans from the Public Works Loan Board and other local authorities;
- private finance initiative contracts;
- trade payables for goods and services received.

The financial liabilities disclosed in the balance sheet are analysed across the following categories:

31 March 2019 Restated			Category	31 March 2020		
Long term	Short term	Total		Long term	Short term	Total
£m	£m	£m		£m	£m	£m
(471.2)	(571.3)	**(1,042.5)**	Financial liabilities at amortised cost	(844.8)	(714.7)	**(1,559.5)**
0	0	**0**	Financial liabilities at fair value through profit and loss	0	(198.5)	**(198.5)**
(1.3)	(141.9)	**(143.2)**	Creditors [#]◦	(1.3)	(181.1)	**(182.4)**
(146.6)	(4.9)	**(151.5)**	Other financial liabilities (PFI) at amortised cost	(139.5)	(7.1)	**(146.6)**
(619.1)	**(718.1)**	**(1,337.2)**	**Total financial liabilities**	**(985.6)**	**(1,101.4)**	**(2,087.0)**
[#] 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 – receipts in advance and non-exchange transactions						
0	*(43.0)*	*(43.0)*	*Creditors which do not meet the definition of a financial instrument*	*0*	(48.2)	(48.2)
(1.3)	*(184.9)*	*(186.2)*	*Balance sheet total*	*(1.3)*	(229.3)	(230.6)

◦ The 2018/19 creditors figure has been restated following the changes detailed in Note 4 – Prior period restatements.

Note 27 – Other current liabilities

31 March 2019		31 March 2020
£m		**£m**
(4.9)	PFI Liability	(7.1)
0	Short positions in investments	(198.5)
(4.9)	**Total**	**(205.6)**

Note 28 – Other long term liabilities

31 March 2019		31 March 2020
£m		**£m**
(1,221.6)	Pension liability	(1,152.9)
(146.6)	PFI liability	(139.5)
(0.1)	Other long term liabilities	(0.1)
(1,368.3)	**Total**	**(1,292.5)**

Note 29 - Private finance initiative (PFI)

The council has the following PFI contracts:

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.

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in four 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.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFI schemes 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, either by 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.

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 2.52% is made for future inflation within the model.

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 assets used to provide services at the schools are recognised on the council's balance sheet. Movements in their value over the year are detailed in the analysis of the movement on the property, plant and equipment balance in Note 18.

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2020/21	0.3	0.6	1.0	1.9
Payment within 2 to 5 years	1.4	3.1	3.2	7.7
Payment within 6 to 10 years	1.4	2.2	1.2	4.8
Total	**3.1**	**5.9**	**5.4**	**14.4**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2020/21	9.8	6.5	13.9	30.2
Payment within 2 to 5 years	50.1	26.1	48.0	124.2
Payment within 6 to 10 years	77.0	43.6	43.8	164.4
Payment within 11 to 15 years	59.6	63.0	28.0	150.6
Payment within 16 to 20 years	0.8	1.5	0.4	2.7
Total	**197.3**	**140.7**	**134.1**	**472.1**

Outstanding PFI liability

31 March 2019		31 March 2020
£m		£m
(157.4)	**Balance outstanding at start of year**	**(151.5)**
5.9	Payments during the year	4.9
(151.5)	**Balance outstanding at year end**	**(146.6)**

The tables show payments due to be made under the PFI contracts. The payments can be reduced if the contractor fails to meet availability or performance standards.

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.

Note 30 - Leases

Council as lessor – finance leases

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

31 March 2019		31 March 2020
£m		£m
1.0	Current	1.1
30.3	Non-current	29.2
14.8	Unearned finance income	13.6
46.1	**Gross investment in the finance lease**	**43.9**

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

31 March 2019			31 March 2020	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	1.0	Not later than one year	2.2	1.1
9.0	4.6	Later than one year and not later than 5 years	9.0	4.7
34.9	25.7	Later than 5 years	32.7	24.5
46.1	**31.3**	**Total**	**43.9**	**30.3**

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.

Note 31 - Reserves

Usable reserves

31 March 2019		31 March 2020
£m		£m
(23.4)	General fund	(23.4)
(217.3)	Earmarked reserves	(244.6)
(67.9)	School reserves	(65.8)
(308.6)	**Total earmarked reserves**	**(333.8)**
(98.9)	Capital grants unapplied reserve	(133.7)
(1.0)	Capital receipts reserve	(0.1)
(408.5)	**Total usable reserves**	**(467.6)**

Unusable reserves

31 March 2019		31 March 2020
£m		£m
52.0	Financial instruments adjustment account	48.3
5.9	Financial instruments revaluation reserve	27.7
(989.9)	Revaluation reserve	(1,004.9)
(1,019.7)	Capital adjustment account	(1,017.8)
1,260.9	Pensions reserve	1,152.9
(7.4)	Collection fund adjustment account	(6.5)
24.7	Accumulated absences adjustment account	29.7
(673.5)	**Total**	**(770.6)**

Financial instruments adjustment account

2018/19		2019/20
£m		**£m**
38.4	**Balance at 1 April**	**52.0**
16.7	Premium on early repayment of debt	0
(3.1)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.7)
52.0	**Balance at 31 March**	**48.3**

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

Financial instruments revaluation reserve

2018/19		2019/20
£m		**£m**
(4.1)	**Balance at 1 April**	5.9
10.0	Downward revaluation of investments	0
0	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	21.8
5.9	**Balance at 31 March**	**27.7**

The financial instruments revaluation reserve contains the gains arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Disposed of and the gains are realised.

Revaluation reserve

2018/19 £m		2019/20 £m
(857.7)	**Balance at 1 April**	**(989.9)**
(212.1)	Upward revaluation of assets	(145.2)
41.2	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	84.5
(170.9)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(60.7)**
17.8	Difference between fair value depreciation and historical cost depreciation	18.1
20.9	Accumulated gains on assets sold or scrapped	27.6
38.7	**Amount written off to the capital adjustment account**	**45.7**
(989.9)	**Balance at 31 March**	**(1,004.9)**

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.

Capital adjustment account

2018/19 £m		2019/20 £m
(995.6)	**Balance at 1 April**	**(1,019.7)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
57.6	Charges for depreciation and impairment of non-current assets	55.8
(36.7)	Revaluation losses/(gains) on property, plant and equipment including assets held for sale	(5.2)
5.8	Amortisation of intangible assets	4.4
28.2	Revenue expenditure funded from capital under statute	22.5
52.9	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	71.1
(5.9)	Write down of PFI liability	(4.9)
(38.7)	Adjusting amount written out of the revaluation reserve	(45.7)
(932.4)	**Net written out amount of the cost of non-current assets consumed in the year**	**(921.7)**
	Capital financing applied in the year	
(52.3)	Capital grants and contributions credited to the comprehensive income and expenditure statement	(46.1)
(22.2)	Application of capital grants to capital financing from the capital grants unapplied account	(34.8)
(12.5)	Statutory provision for the financing of capital investment charged against the general fund	(14.9)
(0.1)	Capital expenditure charged against the general fund	(0.3)
(87.1)		**(96.1)**
(0.2)	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	0
(1,019.7)	**Balance at 31 March**	**(1,017.8)**

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.

Pensions reserve

2018/19		2019/20
£m		£m
1,210.7	**Balance at 1 April**	**1,260.9**
(44.1)	Re-measurement of the net defined benefit liability/(asset)	(203.6)
182.9	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	191.1
(88.6)	Employer's pension contributions and direct payments to pensioners payable in the year	(95.5)
1,260.9	**Balance at 31 March**	**1,152.9**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible.

The debit balance on the pensions reserve, therefore, shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Accumulated absences adjustment account

2018/19		2019/20
£m		**£m**
26.6	**Balance at 1 April**	**24.7**
(26.6)	Settlement or cancellation of accrual made at the end of the preceding year	(24.7)
24.7	Amounts accrued at the end of the current year	29.7
(1.9)	**Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**5.0**
24.7	**Balance at 31 March**	**29.7**

The accumulated absences adjustment account absorbs the differences that would otherwise arise on the general fund balance from accruing for annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Note 32 - 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:

2018/19		2019/20
£m		£m
(24.7)	Interest received	(43.3)
33.6	Interest paid	40.3

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

2018/19		2019/20
£m		£m
57.6	Depreciation	55.8
(36.7)	Impairment and downward/(upward) valuations	(5.2)
5.8	Amortisation of intangible assets	4.4
(4.1)	Increase/(decrease) in impairment for bad debts	(3.1)
24.4	Increase/(decrease) in creditors	10.9
(13.1)	(Increase)/decrease in debtors	(33.8)
(0.3)	(Increase)/decrease in inventories	(0.6)
133.7	Movement in pension liability	134.9
52.9	Carrying amount of non-current assets sold	71.1
(6.4)	Other non-cash items charged to the surplus or deficit on the provision of services	6.6
213.8	**Total**	**241.0**

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

2018/19 £m		2019/20 £m
(16.3)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(51.8)
(1.0)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.7)
(96.8)	Capital grants credited to the surplus on the provision of services	(115.8)
(114.1)	**Total**	**(174.3)**

Note 33 - Cash flows from investing activities

2018/19 £m		2019/20 £m
(93.0)	Purchase of property, plant and equipment, investment property and intangible assets	(98.8)
(11,373.4)	Purchase of short term and long term investments	(4,561.5)
1.0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3.7
11,346.1	Proceeds from the sale of short term and long term investments	4,444.0
99.7	Other capital grants and receipts from investing activities	285.3
(19.6)	**Net cash flows from investing activities**	**72.7**

Note 34 - Cash flows from financing activities

2018/19		2019/20
£m		£m
1,319.8	Cash receipts from short term and long term borrowing	2,014.5
3.1	Appropriate to/from Collection Fund Adjustment Account	0.8
(1,239.2)	Repayment of short term and long term borrowing	(1,498.0)
(4.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4.9)
78.8	**Net cash flows from financing activities**	**512.4**

Note 35 - Reconciliation of liabilities arising from financing activities

	1 April 2019	Financing cash flows		Non-cash changes	31 March 2020
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	471.2	859.7	(486.3)	0.2	844.8
Short term borrowing	571.3	1,154.8	(1,011.7)	0.3	714.7
PFI liabilities	151.5	0.0	(4.9)	0.0	146.6
Total	**1,194.0**	**2,014.5**	**(1,502.9)**	**0.5**	**1,706.1**

	1 April 2018	Financing cash flows		Non-cash changes	31 March 2019
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	471.4	256.8	(257.4)	0.4	471.2
Short term borrowing *	488.4	1,063.00	(981.8)	1.7	571.3
PFI liabilities *	156.4	0	(4.9)	0	151.5
Total	**1,116.2**	**1,319.8**	**(1,244.1)**	**2.1**	**1,194.0**

* The short term element of PFI liabilities is shown within PFI liabilities rather than short term borrowing.

Note 36 - 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). Grant income from government departments is shown in Note 9.

Other public bodies (subject to common control by central government)

The council's material transactions with other public bodies relate primarily to precepts received from other local councils, the summary of which is shown in Note 8 - Taxation and Non Specific Grants.

The council is the host to pooled budget arrangements with several Clinical Commissioning Groups, for the Better Care Fund and for Learning Disabilities. Transactions and balances for both funds are detailed in Note 35.

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 those of their family members.

For 2019/20, there are no transactions for services to organisations in which chief officers have declared interests.

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 is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection.

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 £72.5 million to the fund in 2019/20.

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 Chief Executive and Director of Resources 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 (2%) of the Chief Executive and Director of Resources' salary.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. The interests are detailed in the table below:

Company	Interest	Relationship
Lancashire County Developments Limited	100%	Subsidiary
Lancashire Renewables Limited	100%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Lancashire Enterprise Partnership Limited	50%	Joint venture (Dormant company)
Active Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Burnley Education Trust	75%	Membership ceased 1 September 2019 (Dormant entity)

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 immaterial, the company is not consolidated in the group accounts.

The transactions of Lancashire County Developments Limited are included within the council's group accounts.

Details of transactions with the other companies are shown in the following tables.

Lancashire Renewables Limited

Lancashire Renewables Limited is a subsidiary of Lancashire County Council and manages the two strategic waste management facilities at Leyland and Thornton.

2018/19		2019/20
£m		£m
31.5	Payments made during the year to Lancashire Renewables Limited	27.7
0	Income received during the year from Lancashire Renewables Limited	(0.7)
0.2	Amounts owed at the year end from Lancashire Renewables Limited	0.6
(1.6)	Amounts owed at the year end to Lancashire Renewables Limited	(0.9)

Marketing Lancashire Limited

Marketing Lancashire is a destination management organisation for Lancashire. Its aims include growing the visitor economy and developing the destination as a place to visit, work and invest in.

2018/19		2019/20
£m		£m
0	Payments made during the year to Marketing Lancashire Limited	0.5

Local Pensions Partnership Limited

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. Lancashire Pensions Partnership 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.

2018/19		2019/20
£m		£m
0.2	Payments made during the year to Local Pensions Partnership Limited	0.5
(0.8)	Income received during the year from Local Pensions Partnership Limited	(18.3)
0.1	Amounts owed at the year end from Local Pensions Partnership Limited	0.1
(0.5)	Amounts owed at the year end to Local Pensions Partnership Limited	(0.4)
17.5	Loan to Local Pensions Partnership Limited	0

Penna plc

Penna plc is a recruitment consultancy company, which during the course of 2018/19 and 2019/20 has provided recruitment and key management personnel services to Lancashire County Council.

2018/19		2019/20
£m		£m
0.3	Payments made during the year to Penna plc	0.4
0	Amounts owed at the year end to Penna plc	(0.1)

Hays Specialist Recruitment Limited

Hays Specialist Recruitment Limited is a recruitment consultancy company, which during the course of 2019/20 has provided recruitment and key management personnel services to Lancashire County Council.

2018/19		2019/20
£m		£m
0	Payments made during the year to Hays Specialist Recruitment Limited	0.1
0	Amounts owed at the year end to Hays Specialist Recruitment Limited	(0.1)

Note 37 - Pooled budgets

Pooled budget for learning disabilities

2018/19		2019/20
£m	**Funding provided to the pooled budget**	**£m**
(113.8)	Lancashire County Council	(113.7)
(1.2)	NHS Morecambe Bay CCG	(1.2)
(1.6)	NHS Fylde and Wyre CCG	(1.6)
(0.2)	NHS Blackpool CCG	(0.2)
(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	(0.5)
(123.4)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
141.7	Lancashire County Council	140.7
1.6	NHS Morecambe Bay CCG	1.6
2.2	NHS Fylde and Wyre CCG	2.1
0.3	NHS Blackpool CCG	0.2
2.8	NHS Chorley and South Ribble CCG	3.0
1.5	NHS Greater Preston – central pool	1.6
1.5	NHS West Lancashire CCG	1.6
1.7	NHS East Lancashire CCG	1.5
153.3	**Total**	**152.3**
29.9	**Net (surplus)/deficit arising on the pooled budget during the year**	**28.9**
27.6	**Council share of the net (surplus)/deficit**	**26.4**

The council is the host partner of the pooled funds in respect of learning disability services and the better care fund. The arrangements are 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 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 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.

Better care fund

2018/19 £m	Funding provided to the pooled budget	2019/20 £m
(13.7)	Lancashire County Council (Disabled facilities grant)	(14.7)
(27.0)	NHS East Lancashire CCG	(24.6)
(13.5)	NHS Greater Preston CCG	(9.4)
(12.0)	NHS Chorley and South Ribble CCG	(8.4)
(11.8)	NHS Fylde and Wyre CCG	(13.7)
(10.9)	NHS Morecambe Bay CCG	(10.8)
(7.7)	NHS West Lancashire CCG	(8.0)
(96.6)	**Total**	**(89.6)**
	Expenditure met from the pooled budget	
26.3	Lancashire County Council (Social care)	15.0
18.5	NHS East Lancashire CCG	19.5
9.2	NHS Greater Preston CCG	9.4
8.5	NHS Chorley and South Ribble CCG	9.2
7.8	NHS Fylde and Wyre CCG	9.1
7.5	NHS Morecambe Bay CCG	7.3
5.1	NHS West Lancashire CCG	5.4
13.7	Lancashire County Council (Disabled facilities grant)	14.7
96.6	**Total**	**89.6**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

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.

Note 38 – Agency services

Lancashire Local Enterprise Partnership

The council acts as accountable body for the Lancashire Local Enterprise Partnership (LEP) and processes transactions through its financial ledger using the council's procedures and processes as set out in the LEP assurance framework. The LEP is a collaboration of leaders from local businesses, universities and local councils, who direct economic growth and drive job creation. The council has no entitlement to retain any funds or interest generated from funds or to direct the use of these funds.

Where the council is merely an agent for the expenditure, these transactions are not reflected within the council's accounts. However, where the council is the project sponsor for a scheme then expenditure incurred will be recognised within the council's financial statements.

Income

2018/19		2019/20
£m		**£m**
(34.8)	Growth deal	(63.0)
(23.5)	City deal *	(12.3)
(0.8)	LEP core activity funding	(1.0)
0	LEP additional projects	(1.2)
(0.3)	Growth hub	(0.3)
(59.4)	**Total income**	**(77.8)**

* The City deal total includes contributions of £3.8 million from Lancashire County Council in 2019/20. (2018/19: £13 million)

Expenditure

2018/19 Restated		2019/20
£m		**£m**
34.8	Growth deal	18.1
20.9	City deal	26.2
0.8	LEP core activity funding	1.1
0	LEP additional projects	1.5
0.3	Growth hub	0.3
56.8	**Total expenditure** ◦	**47.2**

In 2019/20, expenditure totalling £25.8 million was spent on LCC schemes. (2018/19: £18 million)
◦ The 2018/19 figures have been amended to show growing places separately as a revolving loan fund.

Growing places

2018/19		2019/20
£m		**£m**
3.7	Payments out	4.1
(0.9)	Repayments	(4.1)
0.0	Loan interest	(1.0)
2.8	**Total**	**(1.0)**

Reserves

2018/19 Restated		2019/20
£m		**£m**
(60.9)	**Balance at 1 April** ◦	**(60.7)**
(59.4)	Income ◦	(77.8)
56.8	Expenditure ◦	47.2
2.8	Growing places ◦	(1.0)
(60.7)	**Balance at 31 March**	**(92.3)**

Note 39 – Material items of income and expense

UK Municipal Bonds Agency

In March 2020, the UK Municipal Bonds Agency (UKMBA) issued its first bond on behalf of Lancashire County Council for £350 million repayable in 2025.

The bond was issued by a financing vehicle incorporated in the Republic of Ireland and branded as a UKMBA vehicle (UK Municipal Bonds Agency). The issuance is fully guaranteed by the county council and the sole purpose of the financing vehicle was to issue the bond and co-ordinate the cash movements between the county council and the investors.

Key features of the bond are:

- £350 million issued
- It is a 'Floating Rate Note'
- 5 years maturity

This is recorded in the balance sheet as long term borrowing.

Transfers to academy status

When a maintained school converts to academy status, the school's buildings held on the council's balance sheet are treated as a disposal. The carrying value of the asset is written off to financing and investment income and expenditure in the comprehensive income and expenditure statement. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

During the year, eight schools transferred to academy status. The value of the disposals totalled £60.2 million.

School	Value
	£m
Morecambe Community High School	15.0
Fearns Community Sports College	4.7
Lancaster Central High School	7.8
Bacup St Mary's Roman Catholic Primary School	0.7
St John The Baptist Roman Catholic Primary School Burnley	2.5
All Saints Catholic Language College	6.4
St Augustine Of Canterbury Roman Catholic Primary School Burnley	1.6
Blessed Trinity Roman Catholic College	21.5
Total	**60.2**

Note 40 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 22 July 2020. Events taking place after this date are not reflected in the financial statements or notes.

Pension fund payment

On 7 May 2020, 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 2020/21 to 2022/23. The value of the payment totalled £120.5 million and has the purpose of generating a cash saving to the council.

Asset valuations

The RICS has established a Material Valuation Uncertainty Leaders Forum to determine whether there remains a material valuation uncertainty in different property market sectors due to the pandemic, or whether the uncertainty warning can be lifted.

On 11 June, the Leaders Forum issued advice that there was no longer any material valuation uncertainty across all industrial/logistics property. An updated position on 8 September advised that there was sufficient evidence of market activity to warrant the uncertainty clause being lifted for all asset types except those in the hospitality/leisure sector, where it was still too early to assess trading potential and thus the uncertainty clause was still applicable. As such, the RICS material valuation uncertainty clause no longer applies to any assets held by the council.

Impact of COVID-19 pandemic

The COVID-19 pandemic resulted in a national lockdown commencing March 2020, having an ongoing impact socially and economically beyond the 31 March balance sheet date.

The quantitative effects of the various measures that the national government have introduced are as yet unknown, and are ongoing.

Technical annex

Brindle
Photo: Nicola Mills

Income, expense, gains and losses on financial instruments – 2019/20

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

	Financial liabilities	Financial assets			Total
	Amortised cost	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m
Interest expense	37.5	0	0	0	37.5
Loss on de-recognition	0	0	3.4	3.3	6.7
Impairment losses	0	0.1	0.1	0	0.2
Fees paid	3.3	0	0	0	3.3
Interest payable and similar charges	**40.8**	**0.1**	**3.5**	**3.3**	**47.7**
Interest income	0	(5.4)	(3.1)	(2.6)	(11.1)
Increases in fair value	0	0	0	(1.6)	(1.6)
Gain on de-recognition	0	0	(21.6)	(15.8)	(37.4)
Interest and investment income	**0**	**(5.4)**	**(24.7)**	**(20.0)**	**(50.1)**
Net impact on the surplus or deficit on provision of services	**40.8**	**(5.3)**	**(21.2)**	**(16.7)**	**(2.4)**
Loss on revaluation	0	0	21.8	0	21.8
Impact on other comprehensive income	**0**	**0**	**21.8**	**0**	**21.8**
Net gain/(loss) for the year	**40.8**	**(5.3)**	**0.6**	**(16.7)**	**19.4**

Income, expense, gains and losses on financial instruments – 2018/19

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

	Financial liabilities	Financial assets			Total
	Amortised cost	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m
Interest expense	51.0	0	0	0	51.0
Loss on de-recognition	0	0	7.8	0	7.8
Impairment losses	0	2.2	0.1	0	2.3
Fees paid	1.2	0	0	0	1.2
Interest payable and similar charges	**52.2**	**2.2**	**7.9**	**0**	**62.3**
Interest income	0	(6.2)	(2.3)	0	(8.5)
Gain on de-recognition	0	0	(21.9)	(2.3)	(24.2)
Interest and investment income	**0**	**(6.2)**	**(24.2)**	**(2.3)**	**(32.7)**
Net impact on the surplus or deficit on provision of services	**52.2**	**(4.0)**	**(16.3)**	**(2.3)**	**29.6**
Loss on revaluation	0	0	10.0	0	10.0
Impact on other comprehensive income	**0**	**0**	**10.0**	**0**	**10.0**
Net gain/(loss) for the year	**52.2**	**(4.0)**	**(6.3)**	**(2.3)**	**39.6**

Fair value of financial assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the balance sheet at fair value. For most assets, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March, 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 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.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy.

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

Allowances for impairment have been calculated for assets held at amortised cost by applying a forward looking 'expected loss' impairment model that focuses on the risk that a loan will default rather than whether a loss has been incurred.

Fair value of financial assets

31 March 2019 Restated				31 March 2020		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial assets held at fair value through other comprehensive income			
276.3	276.3	1	Bond, equity and property funds	1	300.6	300.6
			Financial assets held at fair value through profit and loss			
0	0		Bond, equity and property funds *	2	151.7	151.7
			Financial assets held at amortised cost			
88.3	117.1	2	Local authority bonds	2	15.3	18.6
11.5	12.3	2	Long term bank deposits	2	11.5	12.4
30.3	37.6	2	Lease receivables	2	29.2	34.4
24.6	26.9	2	Long term loans to companies ◦	2	7.2	8.1
154.7	**193.9**		**Subtotal**		**63.2**	**73.5**
431.0	**470.2**		**Total**		**515.5**	**525.8**
150.5			Assets for which fair value is not disclosed #*		861.8	
581.5			**Total financial assets**		**1,377.3**	
30.3			Long term debtors		29.2	
400.7			Long term investments ◦		334.5	
81.9			Short term debtors		113.3	
0.1			Short term investments		266.3	
68.5			Cash and cash equivalents		634.0	
581.5			**Total financial assets**		**1,377.3**	

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

◦ The 2018/19 long term loans to companies and long term investments figures have been restated as detailed in Note 4 – Prior period restatements.

* The fair value of bonds, equity and property funds has been reclassified after the version approved by Audit, Risk and Governance Committee on 19 October 2020. The increase in fair value is due to the reclassification of the LOBO investment in 2018/19, which has not been restated.

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 the end of the financial year) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2019 Restated				31 March 2020		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial liabilities held at amortised cost			
(353.9)	(414.5)	2	Long term PWLB loans	2	(439.6)	(475.2)
(1.3)	(1.3)	2	Long term creditors ◦	2	(1.3)	(1.3)
0	0	2	Long term loans	2	(350.2)	(350.5)
(117.3)	(120.5)	2	Other long term loans	2	(55.0)	(56.0)
(151.5)	(243.1)	2	PFI liabilities	2	(146.6)	(219.1)
(624.0)	**(779.4)**		**Total financial liabilities held at amortised cost**		**(992.7)**	**(1,102.1)**
			Financial liabilities held at fair value through profit and loss			
0	0		Short term liabilities for short investments	1	(198.5)	(198.5)
0	**0**		**Total financial liabilities held at fair value through profit and loss**		**(198.5)**	**(198.5)**
(713.2)			Liabilities for which fair value is not disclosed #		(895.8)	
(1,337.2)	**(779.4)**		**Total financial liabilities**		**(2,087.0)**	**(1,300.6)**
			Recorded on balance sheet as:-			
(141.9)			Short term creditors		(181.1)	
(571.3)			Short term borrowings		(714.7)	
(4.9)			Other current liabilities		(205.6)	
(1.3)			Long term creditors ◦		(1.3)	
(471.2)			Long term borrowing		(844.8)	
(146.6)			Other long term liabilities		(139.5)	
(1,337.2)			**Total financial liabilities**		**(2,087.0)**	

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

◦ The 2018/19 long term creditors figure has been restated as detailed in Note 4 – Prior period restatements.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the council'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 the end of the financial year) 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.

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 finance team, under policies approved by the council in the annual Treasury Management Strategy.

The strategy also imposes a maximum sum and duration that the council can invest in an institution. This is dependent upon the quality of credit rating and in 2019/20 the investment portfolio has maintained a very high AA credit rating.

A main principle of the credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating.

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.

Credit risk – treasury investments

The table below summarises the credit risk exposures of the council's treasury investment portfolio by credit rating:

2018/19 Restated		Credit rating	2019/20	
Long term	Short term		Long term	Short term
£m	£m		£m	£m
198.6	0	AAA	137.0	0
177.3	0	AA	145.9	266.3
0	0	A	44.5	0
375.9	**0**	**Total**	**327.4**	**266.3**
24.8	0.1	Credit rating not applicable ◦	7.1	0
400.7	**0.1**	**Total investments**	**334.5**	**266.3**

◦ The 2018/19 credit rating not applicable figure has been restated as detailed in Note 4 – Prior period restatements.

The maximum single commercial exposure is to the UK Debt Management Office (Debt Management Account Deposit Facility at £233.5 million, which is lower than individual counterparty limit of £500 million for cash deposits. Overall, the portfolio is diversified by the use of 44 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The council manages aged debt within the agreed policy. Loss allowances on treasury investments have been calculated on the 12 month expected credit loss model by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. For local government and central government investments these have been excluded for this loss allowance calculation.

In 2019/20 there are no treasury investments that have suffered a significant increase in credit risk since initial recognition.

Credit risk: trade receivables

The impairment allowance on trade debtors has been calculated using the lifetime credit losses basis. The impairment allowance loss on other financial assets has been calculated based on the expected 12-month credit loss.

	Trade debtors	Financial investments	Total
	£m	£m	£m
Balance at 1 April	**(18.2)**	**(0.1)**	**(18.3)**
Impairment allowance for trade debtors	(0.2)	0	**(0.2)**
Impairment allowance for corporate bonds and long term loans	0	(0.1)	**(0.1)**
Balance at 31 March	**(18.4)**	**(0.2)**	**(18.6)**

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 maturity analysis of principal sums borrowed is as follows:

2018/19		2019/20
£m		£m
568.6	Less than 1 year	713.6
568.6	**Total short term borrowing**	**713.6**
264.6	1 to 2 years	224.1
75.6	3 to 5 years	430.8
110.4	6 to 10 years	112.6
167.2	More than 10 years	216.8
617.8	**Total long term borrowing**	**984.3**
1,186.4	**Total borrowing**	**1,697.9**

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.

Market risk

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

The council is exposed to interest rate movements on its borrowings and investments. 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 will fall
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

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

There is a significant level of short term borrowing which needs to be regularly 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 two factors:

- Maturing and available for sale short term investments, which could be used to pay down debt, should it become cost effective to do so.
- Long term loans of over £264.6 million with the Public Works Loans Board with maturity dates beyond 31 March 2025 with guaranteed interest rates.

The council's strategy takes advantage of market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

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

The following table attempts to quantify the interest rate risk. The impact of a 1% fall in interest rates would be the same but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise.

	2019/20
	£m
Increase in interest payable on variable rate borrowings	4.8
Increase in interest receivable on variable rate investments	(7.5)
Impact on surplus on the provision of services	**(2.7)**
Decrease in fair value of fixed rate other comprehensive income investment assets	(61.9)
Impact on other comprehensive income and expenditure	**(64.6)**
Decrease in fair value of fixed rate loans and investments	(5.3)
Decrease in fair value of fixed rate borrowings	(46.1)

Information on the overall borrowing amounts held on the balance sheet along with the interest rates and maturity information is as follows:

	Borrowing at 31 March 2020	Contractual rates 2019/20	Average rate paid 2019/20	Years to maturity at 31 March 2020
	£m	%	%	
Long term borrowing				
Fixed rate funding:				
Public works loan board	(439.6)	1.57 to 4.625	2.288	Over 1 year to 49 years
Other long term loans	(55.0)	1.2 to 3.8	1.816	Over 1 year to 11 years
Total fixed rate funding	**(494.6)**			
Variable rate funding:				
Long term bonds	(350.2)	1.042	1.042	5 years
Total long term borrowing	**(844.8)**			
Short term borrowing				
Fixed rate funding:				
Public works loan board	(8.5)	4.625	4.625	Less than 1 year
Other market loans	(499.3)	0.79 to 1.8	1.086	Less than 1 year
Accrued interest	(7.0)			
Total fixed rate funding	**(514.8)**			
Variable rate funding:				
Salix funding	(5.9)	0.0	0.000	Less than 1 year
Public works loan board	(125.8)	0.88 to 0.91	0.902	Less than 1 year
Shared investment scheme	(67.3)	0.15 to 0.75	0.667	Less than 1 year
Other variable funding	(0.9)	0.15 to 0.50	0.483	Less than 1 year
Total variable funding	**(199.9)**			
Total short term borrowing	**(714.7)**			
Total borrowing	**(1,559.5)**			

Forward contract agreement

In 2019/20 the council entered into a forward contract agreement in which it agreed to purchase £90 million of UK government bonds at a future time for a sale price of £150.2 million, to mitigate market risk relating to local authority loans made to other local authorities. At 31 March 2020 the fair values represented in the comprehensive income and expenditure statement recognised an overall gain of £1.6 million.

	Financial liabilities at fair value through profit and loss	Financial assets at fair value through profit and loss	Impact on comprehensive income and expenditure statement
	£m	£m	£m
Fair value adjustment	(48.3)	49.9	1.6

The council is exposed to interest rate movements when it invests and borrows that can affect the fair value of assets and liabilities. Through investing in other local authorities the council was exposed to changes in the market value of those loans which in part varied due to the prevailing interest rate. Through the undertaking of a forward contract loan which is exposed to this same risk but negatively correlated in its affect, the potential impact is effectively hedged.

The fair value through profit and loss assets relate to LOBO loan investments with other local authorities and were valued at 31 March 2020, using the Bermudian SWAP basis, in accordance with industry standards. This methodology resulted in a large increase on the balance sheet values for these assets. There was a similar increase in market prices for the UK government bonds and therefore increased the liability owed by the council which offset the large fair value gain from the assets.

The total fair value of assets increase in 2019/20 is affected by the reclassification of the LOBO investment in 2018/19 which has not been restated. The reclassification of the investment in 2018/19 is due to the original misidentification of the asset as one to be held to maturity, however it was an asset held for sale from the outset in 2018/19, and therefore would be shown at fair value under IFRS 9 in both years.

The fair value in 2018/19 was £15.9 million. This would have resulted in a corresponding increase in the comprehensive income and expenditure statement, and therefore an increase in the council's reserves. The full value of this effect plus £34 million relating to 2019/20 is shown in total in the 2019/20 position.

This text has been added after the version approved by Audit, Risk and Governance Committee on 19 October 2020.

Defined benefit pension schemes

As part of the terms and conditions of employment of its 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 council also participates in some other defined benefit pension arrangements, 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 that were awarded at the point of retirement.

Health workers

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.

NEST pension scheme

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.

Governance and risk management

The liability associated with the council's pension arrangements is material to the council. 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 twelve county councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Borough Council, Blackpool Council and trade unions. 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.

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. 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.

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 risk is routinely monitored by 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. 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. Deposits are not made with banks and financial instructions unless they 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 pension funding standards, which could materially affect the council's cash flow.

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 teachers and NHS staff pension schemes, having taken advice from the government actuary, 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 following tables. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

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.

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 general 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 2019/20, £63.7 million was paid to the Department for Education for teachers' pension costs. This represents 20.7% of teachers' pensionable pay (2018/19: £50.5 million and 16.5%).
- In 2019/20, the Council paid £0.3 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (2018/19: £0.1 million and 15%).
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2019/20, these amounted to £8.2 million, representing 2.7% of pensionable pay (2018/19: £8.4 million and 2.7%).

In addition to the recognised gains and losses included in the comprehensive income and expenditure statement, a re-measurement of the net defined liability gain of £203.6 million (2018/19: £44.1 million gain) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £44.6 million.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2019/20	2018/19	2019/20	2018/19
	£m	£m	£m	£m
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	141.9	125.1	0	0
Past service cost	16.5	25.5	0	0
(Gain)/loss from settlements and curtailments	1.4	0.7	0	0
Administration expenses	2.5	2.0	0	0
Financing and investment income and expenditure				
Net Interest expense	25.9	26.5	2.9	3.1
Total post-employment benefit charged to the surplus or deficit on the provision of services	**188.2**	**179.8**	**2.9**	**3.1**
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)	8.6	(277.0)	0	0
Experience (gains)/losses on liabilities	28.6	0	0.1	0
Actuarial (gains)/losses arising on changes in financial assumptions	(76.3)	227.9	(2.0)	5.1
Actuarial (gains)/losses arising on changes in demographic assumptions	(158.1)	0	(4.5)	0
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**(9.0)**	**130.7**	**(3.5)**	**8.2**
Movement in reserves statement				
Reversal of net charges made to the (surplus)/deficit on the provision of services for post-employment benefits in accordance with the Code	188.2	179.8	2.9	3.1
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**85.6**	**78.5**	**9.9**	**10.1**

Assets and liabilities in relation to retirement benefits

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

2018/19			2019/20	
Local government pension scheme	Teachers' pension scheme		Local government pension scheme	Teachers' pension scheme
£m	£m		£m	£m
3,376.7	0	Fair value of plan assets	3,434.2	0
(4,474.6)	(123.7)	Present value of the defined benefit obligation	(4,476.7)	(110.4)
(1,097.9)	**(123.7)**	**Net liability arising from defined benefit obligation**	**(1,042.5)**	**(110.4)**

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

2018/19		2019/20
£m		£m
3,033.9	**Opening balance as at 1 April**	**3,376.7**
276.9	Re-measurement (assets)	(8.6)
79.6	Interest on plan assets	81.3
(2.0)	Admin expenses	(2.5)
78.5	Employer contributions	85.6
24.1	Contributions from scheme participants	25.1
(114.3)	Benefits/transfers paid	(123.4)
3,376.7	**Closing balance as at 31 March**	**3,434.2**

Reconciliation of present value of the scheme liabilities

2018/19			2019/20	
Funded liabilities: Local government pension scheme	Unfunded liabilities: Teachers' pension scheme		Funded liabilities: Local government pension scheme	Unfunded liabilities: Teachers' pension scheme
£m	£m		£m	£m
(4,040.3)	**(125.6)**	**Opening balance as at 1 April**	**(4,474.6)**	**(123.7)**
(125.1)	0	Current service cost	(141.9)	0
(25.5)	0	Past service cost	(16.5)	0
(106.0)	(3.1)	Interest on pension liabilities	(107.2)	(2.9)
(24.1)	0	Contributions from scheme participants	(25.1)	0
114.3	10.1	Benefits/transfers paid	123.4	9.8
(0.7)	0	Curtailment cost	(1.4)	0
		Re-measurement gains and (losses):		
0	0	- Experience gains/(losses) on liabilities	(28.6)	(0.1)
(227.8)	(5.1)	- Actuarial gains/(losses) arising from changes in financial assumptions	76.3	2.0
0	0	- Actuarial gains/(losses) arising from changes in demographic assumptions	158.2	4.5
(39.4)	0	Lump sum early payment of contributions	(39.3)	0
(4,474.6)	**(123.7)**	**Closing balance as at 31 March**	**(4,476.7)**	**(110.4)**

Local Government Pension Scheme assets comprised:

31 March 2019	Asset category	Quoted in active markets (Y/N)	31 March 2020
£m			**£m**
19.6	**Cash and cash equivalents**	N	**37.8**
	Bonds (by sector):		
39.6	Corporate	Y	85.9
118.7	Government	Y	0
158.3	**Sub-total bonds**		**85.9**
	Property (by type):		
81.3	Retail	N	3.4
233.4	Commercial	N	44.6
314.7	**Sub-total property**		**48.0**
	Private equity:		
0	UK	N	0
259.5	Overseas	N	274.7
259.5	**Sub-total private equity**		**274.7**
	Other investment funds:		
477.3	Infrastructure	N	473.9
51.7	Property	N	243.8
2,095.6	Miscellaneous	N	2,270.1
2,624.6	**Sub-total other investment funds**		**2,987.8**
3,376.7	**Total assets**		**3,434.2**

Basis for estimating assets and liabilities

2018/19		2019/20
Mortality assumptions		
Longevity at 65 for current pensioners		
22.8 years	Male	22.3 years
25.5 years	Female	25 years
Longevity at 65 for future pensioners		
25.1 years	Male	23.8 years
28.2 years	Female	26.8 years
Financial assumptions		
2.2%	Rate of CPI inflation	2.1%
3.7%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.4%	Rate for discounting scheme liabilities	2.4%

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 and salary levels. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer, an independent firm of actuaries. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary are shown in the table.

Sensitivity analysis

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption	**Decrease in assumption**
	£m	**£m**
Longevity (increase or decrease in 1 year)	121.1	(121.1)
Rate of inflation (increase or decrease by 1%)	770.9	(770.9)
Rate of increase in salaries (increase or decrease by 1%)	88.7	(88.7)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(757.9)	757.9
Change in 2019/20 investment returns (increase or decrease by 1%)	(34.4)	34.4

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.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation and 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 indicates the change in the defined benefit obligation for changes in the key assumptions.

Impact on the council's cash flows

Actuarial valuations are required to be carried out every 3 years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On 7 May 2020, 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 2020/21 to 2022/23. The value of the payment totalled £120.5 million and has the purpose of generating a cash saving for the council.

McCloud judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

The council included an estimate of £17.7 million in the accounts for 2018/19 for the potential increase in scheme liabilities in relation to the McCloud judgement. The difference in the estimated liability from last year is shown as experience gain or loss on liabilities.

Guaranteed minimum pension equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the 'Barber' judgement) and this includes providing equal benefits accrued from that date to reflect the differences in guaranteed minimum pensions. The 26 October 2018 Lloyds Bank court judgement provided further clarity in this area. In response to this judgement, HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement". Therefore, it is concluded for the main public service pension schemes including the Local Government Pension Scheme, it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgement, at least at the present time.

Post-retirement increases on guaranteed minimum pension benefits: at present the public service schemes are required to provide full CPI pension increases on guaranteed minimum pension benefits for members who reach state pension age between 6 April 2016 and 5 April 2021. There is a possibility that all public sector schemes will be required to index-link guaranteed minimum pension benefits in respect of those members who reach state pension age after April 2021.

The additional potential liabilities in this respect are included as past service costs.

Significant accounting policies

General principles

Basis of preparation

The Accounts and Audit Regulations 2015 require the county council to prepare an annual statement of accounts in accordance with proper accounting practices, mainly 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, under the assumption that the county council will continue in existence for the foreseeable future. The accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue.

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.

Group accounts

The county council has a material interest in a subsidiary company, which has been consolidated into the county council's group accounts on a line-by-line basis, after eliminating intra-group transactions.

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

Pooled budgets

The county council is the host partner of the pooled funds in respect of learning disability services, Better Care Fund and integrated home response and falls lifting service. The arrangements are 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 county 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 are made where there are material adjustments applicable to prior years arising from a change in accounting policies or to correct a material error.

Where a change to accounting policies 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.

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.

Accounting policies for income

Recognition of income

Income is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are received. This means that revenue from the sale of goods or the provision of services is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.

Interest receivable on investments is accounted for as income 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 has been recognised but cash has not been received, a debtor 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.

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. However, the amount to be reflected in the general fund is determined by regulation, therefore, there is an adjustment for the difference between the accrued income and the amount required by regulation to be credited to the general fund made through the movement in reserves statement and the collection fund adjustment account.

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 which was 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 county council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement.

Government grants and other contributions

Government grants, third party contributions and donations are recognised when there is reasonable assurance that the county council will comply with the conditions attached to the payments, and the grants or contributions will be received.

Revenue grants are recognised in the comprehensive income and expenditure statement when the conditions attached to the grant or contribution have been satisfied.

At the end of the year if any grant monies are unspent, this is transferred to an earmarked reserve. When the grant is applied, an amount equal to the expenditure is transferred back from the earmarked reserve to the general fund.

Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. This income is then reversed out of the general 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.

Where grant conditions have not been satisfied then the monies received are carried in the balance sheet as receipts in advance.

Accounting policies for costs

Recognition of expenditure

Expenditure is accounted for in the financial year in which the activity it relates to takes place, not simply when cash payments are made.

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 payable on borrowings is accounted for as 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 expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

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.

Employee benefits

Employee benefits payable during employment

Short term employee benefits such as wages and salaries, paid annual leave and paid sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the comprehensive income and expenditure statement.

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 charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement to the accumulated absences adjustment account.

Termination benefits

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

Where termination benefits involve the enhancement of pensions, regulations require the general fund to be charged with the amount payable to the pension fund rather than the amount calculated under accounting standards. Adjustments are made in the movement in reserves statement to transfer the accounting standards based entries to the pension reserve and replace these with the amount payable to the pension fund.

Post-employment benefits

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

- Teachers' pension scheme, administered by Capita Teachers' pensions on behalf of the Department for Education (DfE);

- Local government pension scheme administered by Lancashire County Council and the Local Pensions Partnership;
- NHS pension scheme administered by NHS Business Services Authority on behalf of the Secretary of State for Health.

Each scheme provides defined benefits to members e.g. retirement lump sums and pensions, earned whilst employees are working for the county council.

The county council recognises the cost of post-employment benefits in the cost of services when they are earned by employees, although these benefits will not actually be payable until employees retire.

Statutory provisions require the general fund to be charged with the amount payable by the county council to the pension fund or directly to pensioners in the year, not the amount calculated according to accounting standards. The real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement and replaced with the cash paid to the pension fund and pensioners.

The balance on the pensions reserve measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The arrangements for the teachers' scheme and NHS scheme mean that liabilities for these benefits cannot be identified to the county council. The schemes are accounted for as if they were a defined contributions scheme and no liability for future payments of benefits is recognised in the balance sheet. The education and public health service revenue accounts are charged with the employer's contributions payable to teachers' and NHS pensions respectively.

Local government pension scheme

The liabilities of the Lancashire County Pension Fund attributable to the county council are included in the balance sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.)

Liabilities are discounted to their value at current prices using a discount rate.

The assets of the local government pension fund attributable to the county council are included in the balance sheet at their fair value:

- Quoted securities – current bid market price;
- Unquoted securities – professional estimate of market value;
- Unitised securities – current bid price;
- Property – market value.

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

Service costs:
Current service cost is the increase in liabilities as a result of years of service earned this year and is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.

Past service cost is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years this is charged to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.

Net interest on the net defined benefit liability:
The expected increase in the present value of liabilities during the year as they move one year closer to being paid, offset by the interest on assets; which is the interest on assets held at the start of the year and cash flows occurring during the period. The result is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Re-measurements:
These comprise the return on plan assets (excluding amounts included in net interest) and actuarial gains and losses. Actuarial gains and losses are the changes in the net pension liability, which arise because actuaries have updated their assumptions.

Re-measurements are charged to the pensions reserve as other comprehensive income and expenditure.

Contributions paid to the Lancashire County Pension Fund:
Cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

Discretionary benefits

The county 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 Local Government Pension Scheme.

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 services in accordance with the county council's arrangements for accountability and financial performance

Private finance initiative (PFI)

PFI and similar 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 county 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 county council at the end of the contracts for no additional charge, the county 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.

Non-current assets related to these contracts and recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the county council.

The county council makes agreed payments each year to the operators, increased in line with inflation where stated in the contract and similarly reduced if performance falls below minimum standards in any year.

The charge made up of the cost of services received during the year, which is charged to the relevant service line in the comprehensive income and expenditure statement and a charge for the property, which is split between:

- The interest charge on the outstanding liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- The contingent rent, debited to the financing and investment income line in the comprehensive income and expenditure statement;
- The payment towards the outstanding liability which is applied to write down the balance sheet liability;
- Lifecycle replacement costs (split between revenue and capital costs). Revenue lifecycle costs are debited to the relevant service in the comprehensive income and expenditure statement. Capital lifecycle costs are 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.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the county 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.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement, in the year the county 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.

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 county council a possible asset, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent liabilities

Contingent liabilities arise where either:

- a possible obligation has arisen from past events, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.

- a present obligation may arise from past events but it is not recognised because 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.

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year that does not create an asset of the county council is charged to the relevant service in the comprehensive income and expenditure statement but funded from capital sources.

An adjustment is made in the movement in reserves statement from the general fund to the capital adjustment account to reverse out the amounts charged so that there is no impact on the level of council tax.

Value added tax (VAT)

The comprehensive income and expenditure account excludes amounts relating to VAT and will be included as an expense, only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Accounting policies for assets and liabilities

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.

Cash and cash equivalents are shown net of bank overdrafts and form an integral part of the council's cash management strategy.

Financial instruments

Financial instruments are recognised on the balance sheet when the county council becomes a party to the contractual provisions of a financial instrument.

Except for financial assets carried at fair value, all other financial liabilities and financial assets represented by investments, borrowing, cash, debtors and creditors are carried on the balance sheet at amortised cost.

Financial assets

Financial assets are classified based on the business model for holding the financial assets and their expected cash flow characteristics.

Financial assets are classified into one of three categories:

Financial assets measured at amortised cost

Where the county council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are initially measured at fair value and are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the county council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest. Interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or de-recognition of the asset. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The county council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the county council is not subject to a high degree of credit risk. These assets are measured and carried at fair value. Interest is recognised in the comprehensive income and expenditure statement on the same basis as for amortised cost financial assets, as described above.

All gains or losses due to changes in the fair value of the assets (both realised and unrealised) are charged to the other comprehensive income and expenditure line in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the de-recognition of the asset are charged 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 financial instruments revaluation reserve.

Financial assets measured at fair value through profit of loss (FVPL)

These assets are measured and carried at fair value.

All gains and losses due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

Expected credit loss model

The county council recognises expected credit losses on its financial assets held at amortised cost or FVOCI, (subject to materiality) either on a 12-month or lifetime basis.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the county council.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at 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. 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 or settlement. Where premiums and discounts are charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years.

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

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.

Property, plant and equipment is recognised where the initial cost or value exceeds £10,000.

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.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

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

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value – highest and best
Operational property, plant and equipment	Current value - existing use value

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

For 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 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 three years.

Valuations are undertaken internally by Lancashire County Council's estates service with valuations for specialist operational properties undertaken by external professional valuers.

Valuations are provided as at 1 April and are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.

Revaluation gains and losses

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.

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.

Depreciation

Depreciation is an accounting estimate used to charge the cost of an asset to services over its useful economic life.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Buildings	5-50 years depending upon the nature of the asset
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

Depreciation is not charged on land, community or heritage assets, as they do not have a determinable finite useful life. Assets under construction are not depreciated until they are available for use. Assets held for sale and investment properties are revalued every year and therefore depreciation is not charged on these assets.

Depreciation is calculated on a straight-line basis meaning that the asset's value reduces equally each year over its life.

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

Depreciation is generally charged on buildings as a single asset. However, where an asset has major components whose cost is significant in relation to the overall cost of the asset, and the lifetime of the component is significantly shorter than that of the asset, the major component is depreciated separately.

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

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 the same was as revaluation losses.

Minimum revenue provision

The county 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 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.

Non-current assets held for sale

Where it is highly probable that property assets will be disposed of within the next 12 months the asset is reclassified as assets 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.

Disposal of assets

When an asset is disposed of, 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. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement 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 net loss or gain on disposal 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. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account (for any sale proceeds greater than £10,000) the capital receipts reserve.

Capital receipts can only be used to fund new capital investment or, be set aside to reduce the council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

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

The valuation of the county 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 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 county council's holding.

The county council has a detailed acquisitions and disposal policy, further information on which can be obtained from the county council. Disposals will not be made with the principal aim of generating funds

Investment property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. They are not used for service delivery

Investment properties are measured initially at cost and subsequently at fair value. 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 and disposal are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Rental income is credited to the financing and investment income line in the comprehensive income and expenditure statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account.

Fair value measurement

The county council measures some of its assets such as surplus assets, investment properties and some of its financial instruments at fair value at each reporting date. 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. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The county council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value, the county council takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

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.

Where the county council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal and replaced by a long term debtor in the balance sheet 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.

Reserves

The county council sets aside specific amounts as reserves for future policy purposes or, to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement.

When expenditure is incurred which is to be financed from an earmarked reserve, the expenditure is charged to the appropriate service revenue account in that year. An equal amount is transferred from the reserve to the general fund in the movement in reserves statement

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 county council. These reserves are explained in the relevant notes.

Schools

The balance of control for local authority maintained schools, foundation, voluntary aided and voluntary controlled schools are all deemed to lie with the council, therefore schools' assets, liabilities, reserves and cash flows are recognised in the council's financial statements as if they were transactions of the council.

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.

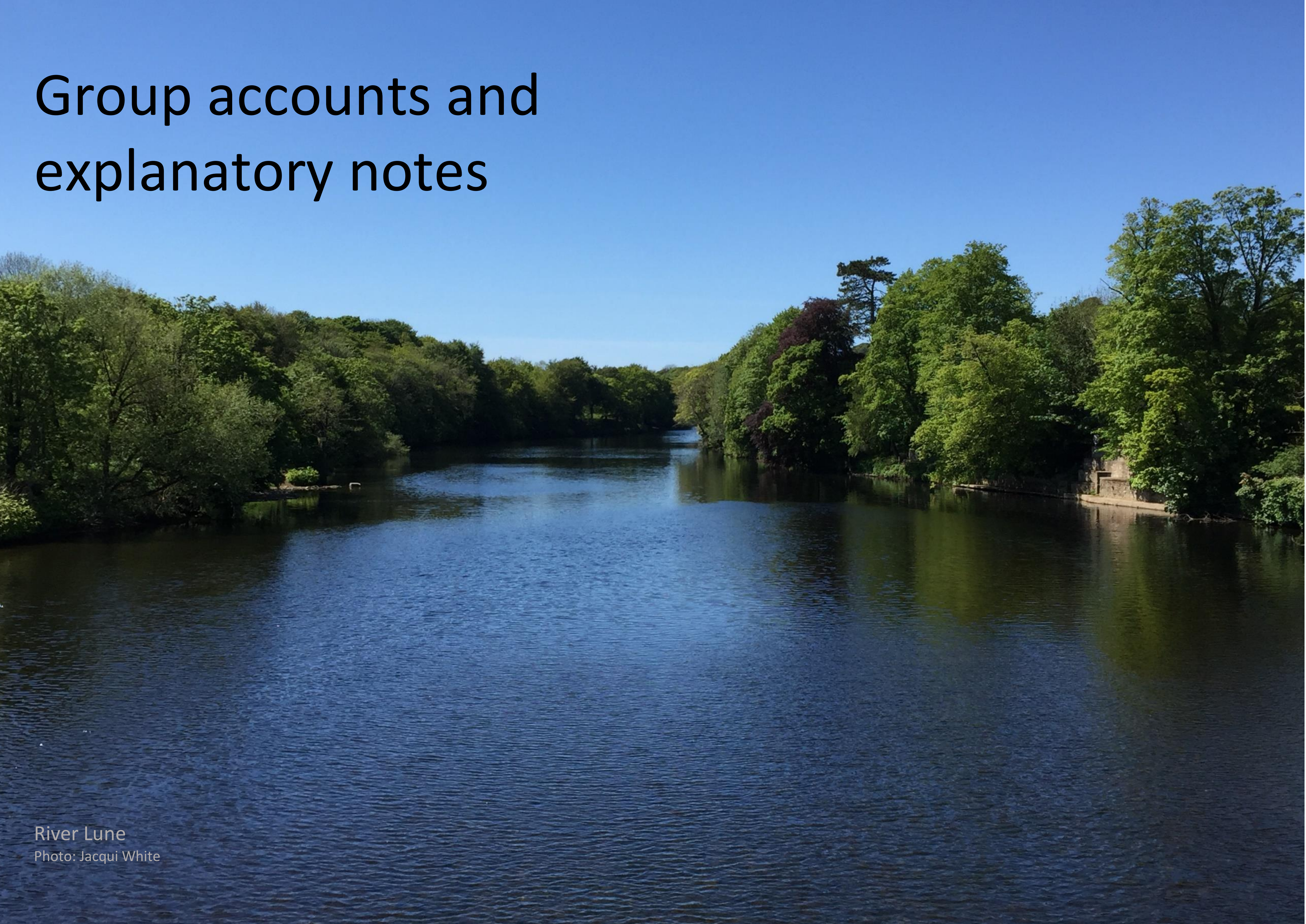
Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the council's property, plant and equipment as the council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

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

School assets are derecognised in full on the date that a school transfers to academy status.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency. 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 education and children's services.

Group accounts and explanatory notes



River Lune
Photo: Jacqui White

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.

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 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

2018/19 Restated				2019/20		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
968.0	(941.3)	26.7	Schools	1,009.2	(957.7)	51.5
38.7	(3.6)	35.1	Chief executive services ◦	60.5	(2.4)	58.1
24.3	(9.2)	15.1	Growth, environment and planning ◦	19.3	(12.1)	7.2
507.2	(155.9)	351.3	Adults ◦	509.5	(135.2)	374.3
215.4	(20.0)	195.4	Education and children's services ◦	225.2	(23.4)	201.8
70.7	(71.5)	(0.8)	Public health and wellbeing ◦	69.9	(69.9)	0
213.7	(51.1)	162.6	Highways and transport ◦	195.7	(48.5)	147.2
60.9	(27.9)	33.0	Finance ◦	70.5	(28.2)	42.3
7.9	(0.5)	7.4	Adult services and public health and wellbeing ◦	8.5	(0.4)	8.1
39.9	(25.8)	14.1	Strategy and performance ◦	56.5	(26.3)	30.2
23.3	(4.9)	18.4	Corporate ◦	25.9	(6.4)	19.5
2,169.9	**(1,311.7)**	**858.2**	**Cost of services**	**2,250.7**	**(1,310.5)**	**940.2**
54.0	(9.1)	44.9	Other operating income and expenditure	72.2	(5.9)	66.3
83.8	(30.9)	52.9	Financing and investment income and expenditure	69.6	(43.2)	26.4
0	(853.5)	(853.5)	Taxation and non-specific grant income	0	(946.2)	(946.2)
2,307.7	**(2,205.2)**	**102.5**	**(Surplus)/deficit on provision of services**	**2,392.5**	**(2,305.8)**	**86.7**
1.3	0	1.3	Taxation on profit on ordinary activities	(0.1)	0	(0.1)
2,309.0	**(2,205.2)**	**103.8**	**Group (surplus)/deficit**	**2,392.4**	**(2,305.8)**	**86.6**
		(170.9)	(Surplus)/deficit on revaluation of non-current assets			(60.7)
		(44.1)	Remeasurement of the net defined benefit pension liability/(asset)			(203.6)
		10.0	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			0
		0	(Surplus)/deficit on revaluation of available for sale assets			21.8
		(205.0)	**Other comprehensive income and expenditure**			**(242.5)**
		(101.2)	**Total comprehensive income and expenditure**			**(155.9)**

◦ The 2018/19 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period restatements.

2019/20

	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 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**	**(47.1)**	**(1,129.1)**
Movement in reserves during 2019/20								
Total comprehensive income and expenditure	86.3	0	0	86.3	(242.5)	(156.2)	0.3	(155.9)
Adjustment between accounting basis and funding basis under regulations	(111.5)	0.9	(34.8)	(145.4)	145.4	0	0	0
(Increase)/decrease in year	**(25.2)**	**0.9**	**(34.8)**	**(59.1)**	**(97.1)**	**(156.2)**	**0.3**	**(155.9)**
Balance at 31 March 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**	**(46.8)**	**(1,285.0)**

2018/19

	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 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**	**(41.7)**	**(1,027.9)**
Movement in reserves during 2018/19								
Total comprehensive income and expenditure	109.2	0	0	109.2	(205.0)	(95.8)	(5.4)	(101.2)
Adjustment between accounting basis and funding basis under regulations	(100.4)	(1.0)	(22.2)	(123.6)	123.6	0	0	0
(Increase)/decrease in year	**8.8**	**(1.0)**	**(22.2)**	**(14.4)**	**(81.4)**	**(95.8)**	**(5.4)**	**(101.2)**
Balance at 31 March 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**	**(47.1)**	**(1,129.1)**

31 March 2019 Restated		Note	31 March 2020
£m			£m
3,029.5	Property, plant and equipment		3,071.2
28.7	Heritage assets		28.7
47.5	Investment properties	8	44.7
14.7	Intangible assets		10.9
398.6	Long term investments ◦		331.0
44.5	Long term debtors		42.9
3,563.5	Long term assets		**3,529.4**
1.4	Short term investments		267.9
2.7	Inventories		3.4
118.6	Short term debtors		164.3
9.3	Payments in advance		24.1
68.6	Cash and cash equivalents		634.0
5.5	Assets held for sale		3.7
206.1	Current assets		**1,097.4**
(564.9)	Short term borrowing		(707.6)
(184.0)	Short term creditors		(227.7)
(13.6)	Receipts in advance		(21.6)
(9.8)	Short term provisions		(13.4)
(4.9)	Other current liabilities		(205.6)
(777.2)	Current liabilities		**(1,175.9)**
(18.6)	Long term provisions		(24.8)
(2.6)	Deferred tax liability	9	(2.5)
(472.5)	Long term borrowing		(844.8)
(1.3)	Other long term creditors ◦		(1.3)
(1,368.3)	Other long term liabilities		(1,292.5)
(1,863.3)	Long term liabilities		**(2,165.9)**
1,129.1	Net assets		**1,285.0**
(408.5)	Usable reserves	10	(467.6)
(673.5)	Unusable reserves	10	(770.6)
(27.5)	Subsidiary usable reserves	10	(27.6)
(19.6)	Subsidiary unusable reserves	10	(19.2)
(1,129.1)	Total reserves		**(1,285.0)**

◦ The 2018/19 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

2018/19 £m		Note	2019/20 £m
(103.8)	Net surplus/(deficit) on the provision of services		(86.6)
208.0	Adjustments to net surplus/deficit on the provision of services for non-cash movements	11	240.9
(114.1)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	11	(174.3)
(9.9)	**Net cash flows from operating activities**		**(20.0)**
(18.8)	Investing activities	12	73.3
78.5	Financing activities	13	512.1
49.8	**Net increase/(decrease) in cash or cash equivalents**		**565.4**
18.8	Cash and cash equivalents at the beginning of the reporting period		68.6
68.6	**Cash and cash equivalents at the end of the reporting period**		**634.0**

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 Limited have been eliminated.

Lancashire County Developments Limited has the same reporting date as the council. Year-end accounts to 31 March 2020 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**
Lancashire County Developments Limited	100%	Subsidiary
Lancashire Renewables Limited	100%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Active Lancashire Limited	100%	Subsidiary
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire Enterprise Partnership Limited	50%	Joint venture (Dormant company)
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Burnley Education Trust	75%	Member (Dormant entity)

Note 4 - Entities consolidated

Lancashire County Developments Limited has been 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) is an economic development 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 two members of the company (Blackburn with Darwen Borough Council and Blackpool 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.

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 economic growth.

Note 5 - Group fees payable to auditors

2018/19 £000		2019/20 £000
	Fees in respect of Lancashire County Council	
87	Fees incurred with regard to external audit services provided by Grant Thornton	87
4	Fees incurred for other audit work undertaken by Grant Thornton	4
9	Fees payable in respect of other services provided by Grant Thornton	9
0	Reimbursement from Public Sector Audit Appointment	(10)
100	**Total fees for Lancashire County Council**	**90**
	Fees in respect of Lancashire County Developments Limited	
32	Fees incurred with regard to external audit services provided by Beever and Struthers	28
0	Fees payable in respect of other services provided by Beever and Struthers during the year	3
32	**Total fees for Lancashire County Developments Limited**	**31**
132	**Total**	**121**

Note 6 - Group taxation

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

31 March 2019		31 March 2020
£m		£m
0	Deferred tax: origination and reversal of timing differences	0.3
1.3	Capital gains	(0.4)
1.3	**Total deferred tax**	**(0.1)**
1.3	**Taxation on profit on ordinary activities**	**(0.1)**

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2018	Transfers out 2018/19	Transfers in 2018/19	Balance at 31 March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the council	**(317.4)**	**108.6**	**(99.8)**	**(308.6)**	**54.9**	**(80.1)**	**(333.8)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(18.3)	0	(0.5)	(18.8)	0.7	(0.8)	(18.9)
Total revenue and capital reserves of the subsidiary	**(27.0)**	**0**	**(0.5)**	**(27.5)**	**0.7**	**(0.8)**	**(27.6)**
Total reserves	**(344.4)**	**108.6**	**(100.3)**	**(336.1)**	**55.6**	**(80.9)**	**(361.4)**

Note 8 – Group investment properties

31 March 2019		31 March 2020
£m		£m
(4.2)	Rental Income from investment property	(4.3)
0	Direct operating expenses arising from investment property	(0.1)
(4.2)	**Total**	**(4.4)**

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

31 March 2019		31 March 2020
£m		£m
42.3	**Balance as at 1 April**	**47.5**
0	Additions	0.3
0	Reclassifications	(1.5)
(1.2)	Disposals	(1.6)
6.4	Net gains/(losses) from fair value adjustments	0
47.5	**Balance as at 31 March**	**44.7**

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 the repairs, maintenance or enhancement of the properties.

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

Valuation process for investment properties

The fair value of the investment property is revalued annually by the council's internal estates department as at 31 March. Every three years the company obtains an external valuation for the commercial units.

The 2019/20 commercial unit valuations have been undertaken by Lancashire County Council, Estates department in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards 2017, which incorporate the International Valuation Standards and the RICS UK national supplement (effective from 14 January 2019) (RICS Red Book).

Basis of valuation

The fair value of the investment property portfolio has been estimated using the investment approach, having regard to the current passing rental values on the estate, ensuring that this is in line with the market rates.

Where a market approach does not include significant unobservable adjustments, these assets are categorised as level 2. The fair value level for the council's investment property portfolio is designated as level 2 inputs.

Fair value hierarchy

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

31 March 2019				31 March 2020		
Balance sheet value	**Fair value**	**Fair value level**	**Property type**	**Fair value level**	**Balance sheet value**	**Fair value**
£m	**£m**				**£m**	**£m**
1.6	1.6	2	Residential properties	2	0	0
45.9	45.9	2	Commercial units	2	44.7	44.7
47.5	**47.5**		**Total**		**44.7**	**44.7**

Impact of COVID-19 on asset valuations

The coronavirus pandemic has caused uncertainty around asset valuations. Lockdown in the UK commenced on 23 March 2020. The full effects on the property sector are, as yet, unclear. The immediate impact has been a widespread halt in transactions. This level of valuation uncertainty has caused the RICS to issue the following statement:

Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case'.

At the current time, it is not possible to accurately predict the longevity and severity of the impact of the COVID-19 pandemic on the economy, nor on the county council's group asset values (if any). As such, asset values as at 31 March 2020 are based on property values and build costs pre COVID-19, as there is no evidence available to justify any change in values.

Note 9 - Deferred taxation

31 March 2019		31 March 2020
£m		£m
1.3	**Balance as at 1 April**	**2.6**
1.3	Charge for the year	(0.1)
2.6	**Balance as at 31 March**	**2.5**

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

Note 10 - Group reserves

The total usable reserves are shown in the table below:

2018/19		2019/20
£m		£m
(23.4)	General fund	(23.4)
(217.3)	Earmarked reserves	(244.6)
(67.9)	School reserves	(65.8)
(308.6)	**Total earmarked reserves of the council**	**(333.8)**
(98.9)	Capital grants unapplied reserve	(133.7)
(1.0)	Usable capital receipts	(0.1)
(408.5)	**Total usable reserves of the council**	**(467.6)**
(27.5)	Usable reserves of the subsidiary	(27.6)
(436.0)	**Total usable reserves of the group**	**(495.2)**

The table below shows the group's unusable reserves:

31 March 2019		31 March 2020
£m		**£m**
52.0	Financial instruments adjustment account	48.3
5.9	Financial instruments revaluation reserve	27.7
(989.9)	Revaluation reserve	(1,004.9)
(1,019.7)	Capital adjustment account	(1,017.8)
1,260.9	Pensions reserve	1,152.9
(7.4)	Collection fund adjustment account	(6.5)
24.7	Accumulated absences adjustment account	29.7
(673.5)	**Total unusable reserves of the council**	**(770.6)**
(19.6)	Revaluation reserve for subsidiary	(19.2)
(693.1)	**Total unusable reserves of the group**	**(789.8)**

The revaluation reserve for the subsidiary is detailed below.

31 March 2019		31 March 2020
£m		**£m**
(14.7)	**Balance as at 1 April**	**(19.6)**
(6.2)	Upward revaluation of assets	(0.1)
0	(Loss)/profit for the year	(0.3)
0	Realisation on disposal of investment properties	0.9
1.3	Deferred taxation	(0.1)
(4.9)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**0.4**
(19.6)	**Balance as at 31 March**	**(19.2)**

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

31 March 2019		31 March 2020
£m		£m
(24.5)	Interest received	(43.0)
33.6	Interest paid	40.3

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

31 March 2019		31 March 2020
£m		£m
57.6	Depreciation	55.8
(36.7)	Impairment and downward/(upward) valuations	(5.2)
5.8	Amortisation of intangible assets	4.4
(4.1)	Increase/(decrease) in provision for bad debts	(3.1)
24.3	Increase/(decrease) in creditors	11.4
(13.3)	(Increase)/decrease in debtors	(34.3)
(0.3)	(Increase)/decrease in inventories	(0.6)
133.7	Movement in pension liability	134.9
52.9	Carrying amount of non-current assets sold	71.1
(11.9)	Other non-cash items charged to the surplus or deficit on the provision of services	6.5
208.0	**Total**	**240.9**

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

31 March 2019 £m		31 March 2020 £m
(16.3)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(51.8)
(1.0)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	(6.7)
(96.8)	Capital grants credited to the surplus on the provision of services	(115.8)
(114.1)	**Total**	**(174.3)**

Note 12 - Group cash flows from investing activities

31 March 2019 £m		31 March 2020 £m
(93.0)	Purchase of property, plant and equipment, investment property and intangible assets	(98.8)
(11,375.8)	Purchase of short term and long term investments	(4,563.8)
4.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6.6
11,346.2	Proceeds from the sale of short term and long term investments	4,444.0
99.7	Other capital grants and receipts from investing activities	285.3
(18.8)	**Net cash flows from investing activities**	**73.3**

Note 13 - Group cash flows from financing activities

31 March 2019		31 March 2020
£m		**£m**
1,319.5	Cash receipts from short term and long term borrowing	2,014.2
3.1	Appropriate to/from collection fund adjustment account	0.8
(1,239.2)	Repayment of short term and long term borrowing	(1,498.0)
(4.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4.9)
78.5	**Net cash flows from financing activities**	**512.1**

Pension fund accounts and explanatory notes

Avenham Park Pavilion

Lancashire County Pension Fund

Fund account for year ended 31 March 2020

2018/19		Note	2019/20
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
170.9	Contributions	6	177.0
11.0	Transfers in from other pension funds	7	17.0
181.9	**Additions from dealings with members**		**194.0**
(275.3)	Benefits	8	(287.1)
(16.4)	Payments to and on account of leavers	9	(21.8)
(291.7)	**Withdrawals from dealing with members**		**(308.9)**
(109.8)	**Net (withdrawals)/additions from dealings with members**		**(114.9)**
(76.3)	Management expenses	10	(65.0)
(186.1)	**Net (withdrawals)/additions including fund management expenses**		**(179.9)**
	Returns on investments		
193.5	Investment income	11	206.1
781.5	Profit and losses on disposal of investments and changes in the value of investments	13	1.4
975.0	**Net return on investments**		**207.5**
788.9	**Net increase in the net assets available for benefits during the year**		**27.6**
7,621.2	**Opening net assets of the scheme**		**8,410.1**
8,410.1	**Closing net assets of the scheme**		**8,437.7**

Net assets statement as at 31 March 2020

31 March 2019		Note	31 March 2020
£m			**£m**
8,327.3	Investment assets	13	8,320.6
67.1	Cash deposits	13	108.8
8,394.4	**Total net investments**		**8,429.4**
22.0	Current assets	19	15.0
(6.3)	Current liabilities	20	(6.7)
8,410.1	**Net assets of the fund available to fund benefits at the end of the reporting period**		**8,437.7**

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 24.

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 2020 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 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.

Contribution income of £177.0m together with transfers in of £17.0m part funded the payment of £308.9m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2020, together with management expenses, is funded from investment income.

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 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

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 (Amendment) Regulations 2018
- 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.

It is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees, whether active, deferred or retired members, of Lancashire County Council, the unitary and district councils in Lancashire and a range of other scheduled and admitted bodies within the geographic county of Lancashire. 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 twelve 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 Lancashire Fund Information.

The investments of the Fund are managed by the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP also manages the administration functions on behalf of the two partner authorities.

The Lancashire Local Pension Board assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

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.

Membership of the Fund, as at 31 March 2020 is detailed in the following table:

31 March 2019	Lancashire County Pension Fund	31 March 2020
300	Number of employers with active members[1]	313
133	Number of ceased employers (no active members but some outstanding liabilities)	140
	Number of active scheme members[2]	
25,721	County Council	25,614
27,422	Other employers	28,340
53,143	**Total**	**53,954**
	Number of pensioners	
24,692	County Council	25,497
24,651	Other employers	25,674
49,343	**Total**	**51,171**
	Number of deferred pensioners[2]	
37,691	County Council	36,753
36,299	Other employers	36,272
73,990	**Total**	**73,025**
176,476	**Total membership[3]**	**178,150**

[1] includes employers for whom admission to the Fund is in progress

[2] March 2019 membership numbers have been adjusted to transfer 5,089 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 2,985 pending leavers has been made at 31 March 2020.

[3] March 2020 membership numbers vary from the Local Pensions Partnership Annual Administration Report for the year ended 31 March 2020 due to the dates at which the reports were produced.

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2019/20 are based on the valuation at 31 March 2016. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2019/20 range from 0.0 % to 28.0 % of pensionable pay and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

	Service Pre 1 April 2008	Service post 1 April 2008 and pre 1 April 2014	Service post 1 April 2014
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th 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.

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2019/20* 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 nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20,* 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 2020 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2019/20.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate certified by the fund actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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

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 (Amendment) Regulations 2018.

Individual transfers in or out are accounted for when received or 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.

Investment income

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.

Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Dividends received within the LPPI Global Equities pool are included within distributions from pooled funds and are reinvested within the LPPI Global Equities Fund.

Property related income

Property-related income consists primarily of rental income. Rental income from 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.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits or losses during the year.

Fund account – expense items

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.

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.

Management expenses

The Fund discloses its pension fund management expenses on an accruals basis and in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative 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.

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 pension fund 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 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. All oversight and governance expenses are accounted for on an accruals basis.

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, custody fees 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, including the 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.

A number of the fee mandates in place include an element that is 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 2019/20, £8.3m of fees is based on such estimates (2018/19: £19.3m).

Net assets statement

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).

Freehold and leasehold properties

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. The risks and rewards of ownership of these properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value.

The properties were valued at open market value at 31 March 2020 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). As a result of the COVID19 pandemic and the impact of the virus on the market, the valuation at 31 March 2020 is reported on the basis of 'material valuation uncertainty'. Note 5 provides additional information.

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, 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.

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 and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

Cash comprises 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.

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 in the fund account as part of the change in value of investments.

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 International Accounting Standard (IAS) 19 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 24).

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 Fund. The AVC providers to the Pension Fund during the year were Prudential, Utmost Life and Pensions and Equitable Life. 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 for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, Mercer, and reviewed by the Fund and actuary during the intervening period. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity, long term credit and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, long term credit and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities, long term credit and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines.

Note 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 reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates, in particular given the absence of any consensus view on the future path of the COVID-19 pandemic and its impact on the economy.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

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 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Due to the uncertainty in the financial markets caused by the current COVID-19 pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty this year and that the estimated valuations may be misstated. There is a wide range of outcomes resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the actions and time needed to return to a more 'steady state' in the market.	The market value of private equity and infrastructure investments in the financial statements totals £1,958.6m (2018/19: £1,796.5m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
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 be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data. There is more uncertainty than usual in respect of the closing valuation of long term credit due to the market impact of COVID-19.	The market value of long-term credit investments in the financial statements totals £1,098.3m (2018/19: £1,134.1m excluding investment in loans secured on real assets). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Indirect core property investments	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. The current COVID-19 pandemic is impacting financial markets in all sectors ad at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value. As a result, there is a risk that the value of indirect property investments may be under or over stated. Valuers are faced with an unprecedented set of circumstances this year, on which to base a judgment. Valuations have therefore been reported on the basis of 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty,	Indirect property investments in the financial statements total £799.6m (2018/19: £124.0m). During the year property investments previously held directly by the Fund were transitioned into the Local Pensions Partnership Real Estate Fund. The market value of these properties on the date of transition was £641.3m and is now included within total indirect property investment value. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.

	and a higher degree of caution, should be attached to the valuation of indirect core property holdings that would normally be the case.	
Non-core property investments	The non-core property investment comprises a 100% share in the real estate investment trust (REIT), HH No.1 Ltd. This investment is classified as real estate but the Fund holds an interest in the trust rather than the underlying investments which are shared ownership housing assets. The fair value is derived from the value of the REIT and is dependent upon future looking assumptions. HH No.1 Ltd was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds. As for other non-quoted investments, there is an increased risk of misstatement in the valuation at 31 March 2020 due to the uncertainty in the market as a result of the ongoing pandemic.	The Fund has an investment in shared ownership housing, classified as non-core property, and valued at £330.5m. This is a new asset during the year and comprises 100% holding of the real estate investment trust, HH No.1 Ltd.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to relating to future experience. The main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed rate of return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied. Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, post-retirement increases on GMP from April 2021, the impact of COVID19 and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts.	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 £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £300m.

Direct property valuations	The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Valuation – Professional Standards – 2017.Avison Young have advised that as a firm, due to the COVID-19 pandemic, they can attach less weight to previous market evidence for comparison purposes and that they are faced with unprecedented circumstances on which to base a judgement. As for indirect property holdings, the valuation of direct property is reported on the basis of 'material valuation uncertainty'. This does not mean that the valuation cannot be relied upon but that less certainty can be attached to the valuation than would otherwise be the case.	Investment properties held directly by the Fund are valued at £110.2m (2018/19: £761.9m). The significant reduction in investment value is due to the transition of the majority of the Fund's national investment portfolio into the LPPI Real Estate Fund during the year and now classified as indirect core property investments – see above. The market value of £110.2m at 31 March 2020 comprises property situated within the county boundary of Lancashire (£63.8m)) and properties located in Wales (£38.1m)) and Scotland (£8.3m).

Note 6 - Contributions receivable

2018/19		2019/20
£m	**By category**	**£m**
58.7	Members	61.4
	Employers:	
96.8	Normal contributions	101.5
11.4	Deficit recovery contributions	11.2
4.0	Augmentation contributions [1]	2.9
112.2	Total employers contributions	115.6
170.9	**Total contributions receivable**	**177.0**
	By type of employer	
57.8	County Council [1]	58.3
93.1	Scheduled bodies [1]	98.2
20.0	Admitted bodies	20.5
170.9		**177.0**

[1] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2019/20, £0.3m is voluntary and additional regular contributions (2018/19: £0.3m).

Note 7 - Transfers in from other pension funds

2018/19		2019/20
£m		**£m**
11.0	Individual transfers in from other schemes	17.0
11.0		**17.0**

Note 8 - Benefits payable

2018/19		2019/20
£m	**By category**	**£m**
226.5	Pensions	239.3
43.0	Commutation and lump sum retirement benefits	42.0
5.8	Lump sum death benefits	5.8
275.3	**Total benefits payable**	**287.1**
	By type of employer	
116.4	County Council	121.1
137.5	Scheduled bodies	144.0
21.4	Admitted bodies	22.0
275.3		**287.1**

Note 9 - Payments to and on account of leavers

2018/19		2019/20
£m		£m
0.6	Refunds to members leaving service	1.3
15.8	Individual transfers	20.5
16.4		**21.8**

Note 10 - Management expenses

2018/19		2019/20
£m		£m
3.7	Fund administrative costs	3.4
71.7	Investment management expenses	60.4
0.9	Oversight and governance costs [1]	1.2
76.3		**65.0**

[1] Oversight and governance costs above include external audit fees which amounted to £31,310 (2018/19: £27,810). Additional fees of £15,750 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

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Investment management expenses

2018/19		2019/20
£m		**£m**
1.0	Transaction costs[1]	2.3
48.3	Fund value based management fees [2]	40.5
22.4	Performance related fees	17.5
-	Custody fees	0.1
71.7		**60.4**

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] 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 guidance. 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.

Note 11 - Investment income

2018/19		2019/20
£m		**£m**
2.1	Fixed interest securities	2.4
157.2	Pooled investment vehicles	179.5
1.7	Pooled property investments	8.6
32.0	Net rents from properties	15.5[1]
0.5	Interest on cash deposits	0.1
193.5	**Total investment income**	**206.1**

[1]The reduction in rental income since last year is due to the transition of a significant number of directly held properties into the Local Pensions Partnership Real Estate Fund with effect from 1 October 2019, combined with an increase in property related expenditure. Income from the real estate fund is included within pooled investment income from the date of transition.

Note 12 - Property income

2018/19		2019/20
£m		£m
36.7	Rental income	22.1
(4.7)	Direct operating expenses	(6.6)
32.0	**Net income**	**15.5**

Note 13 - Reconciliation of movements in investments

	Market value as at 1 April 2019	Purchases at cost	Sales proceeds	Change in value during the year [1]	Market value as at 31 March 2020
	£m	£m	£m	£m	£m
Fixed interest securities	110.7	585.5	(546.3)	(7.4)	142.5
Index linked securities	283.6	-	-	(283.6)	-
Pooled investment vehicles	7,043.2	483.1	(522.4)	(90.4)	6,913.5
Pooled property investments	124.0	49.1	(14.1)	971.1	1,130.1
Private equity	-	12.5	-	-	12.5
Direct property	761.9	11.0	(23.6)	(639.1)	110.2
	8,323.4	**1,141.2**	**(1,106.4)**	**(49.4)**	**8,308.8**
Cash deposits	67.1				108.8
Loan investments	-				3.0
Investment income due	3.9				8.8
Net investment assets	**8,394.4**				**8,429.4**

[1] £1.4 m on the face of the Fund account includes the change in market value of investments disclosed above (£49.4m), plus profits and losses on disposals and changes in the market value of investments held within the pools. The change in value of direct property above includes £641.3m market value of properties transitioned to the LPPI Real Estate Fund during the year which is included as an increase in market value within pooled property investments above. The change in value of index linked securities (£283.6m) reflects the restructuring of the investment in shared ownership housing which is now reflected within pooled property investments.

	Market value as at 1 April 2018	Purchases at cost	Sales proceeds	Change in market value [1]	Market value as at 31 March 2019
	£m	**£m**	**£m**	**£m**	**£m**
Fixed interest securities	116.8	321.3	(329.1)	1.7	110.7
Index linked securities	178.0	122.2	(3.1)	(13.5)	283.6
Pooled investment vehicles	6,321.5	507.0	(496.3)	711.0	7,043.2
Pooled property investments	113.3	8.3	-	2.4	124.0
Direct property	715.5	34.8	-	11.6	761.9
	7,445.1	**993.6**	**(828.5)**	**713.2**	**8,323.4**
Cash deposits	162.0				67.1
Investment accruals	3.1				3.9
Net investment assets	**7,610.2**				**8,394.4**

[1] £781.5m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

Investments analysed by fund manager

31 March 2019			31 March 2020	
£m	% of net investment assets		£m	% of net investment assets
Private equity investments				
635.0	7.6%	LPPI Private Equity Fund	750.0	8.9%
Private equity investments managed outside of LPPI Private Equity Fund				
15.4	0.2%	Trilantic Capital Partners	15.1	0.2%
-	-	Local Pensions Partnership Limited	12.5	0.1%
650.4	**7.8%**	**Total private equity investments**	**777.6**	**9.2%**
Long term credit investments				
923.0	11.0%	LPPI Credit Investments	947.4	11.3%
Credit investments managed outside of LPPI Credit Investments Fund				
111.5	1.3%	CRC	61.2	0.7%
52.1	0.6%	Neuberger Berman	51.7	0.6%
31.8	0.4%	Pimco Bravo	26.7	0.3%
10.1	0.1%	EQT	7.6	0.1%
5.6	0.1%	Hayfin	3.7	-
352.0	4.2%	Heylo Housing Trust[1]	-	-
1,486.1	**17.7%**	**Total long term credit investments**	**1,098.3**	**13.0%**
Fixed income investments				
314.7	3.7%	LPPI Fixed Income Fund	332.8	3.9%
Liquid credit investments managed outside of LPPI Fixed Income Fund				
181.6	2.1%	LPPI internal and LCC Treasury Management	254.3	3.0%
496.3	**5.8%**	**Total fixed income investments**	**587.1**	**6.9%**
Global equity investments				

3,729.6	44.4%	LPPI Global Equities Fund	3,454.7	41.0%
3,729.6	**44.4%**	**Total global equity investments**	**3,454.7**	**41.0%**
Infrastructure investments				
930.3	11.1%	LPPI Global Infrastructure Fund	958.1	11.4%
Infrastructure investments managed outside of LPPI Global Infrastructure Fund				
103.2	1.2%	Arclight Energy	108.3	1.3%
55.6	0.7%	Icon Infrastructure Partners	65.7	0.8%
31.5	0.4%	Highstar Capital	27.7	0.3%
25.5	0.3%	Capital Dynamics Red Rose	21.2	0.3%
215.8	**2.6%**		**222.9**	**2.7%**
1,146.1	**13.7%**	**Total infrastructure investments**	**1,181.0**	**14.1%**
Diversifying strategy investments				
-	-	LPPI Diversifying Strategies Fund	90.3	1.1%
-	**-**	**Total diversifying strategies investments**	**90.3**	**1.1%**
Property investments				
Directly held properties				
761.9	9.1%	Knight Frank	110.2	1.3%
Pooled property funds				
Core property				
-	-	LPPI Real Estate Fund	799.7	9.5%
47.9	0.6%	M&G Europe Fund	-	-
40.3	0.5%	Gatefold Hayes	-	-
28.3	0.3%	Kames Target	-	-
7.4	0.1%	BaseCamp Real Estate Partners Ltd	-	-
Non-core property				
-	-	HH No.1 Limited[1]	330.5	3.9%
885.9	**10.6%**	**Total property investments**	**1,240.4**	**14.7%**
8,394.4	**100.0%**	**Net investment assets**	**8,429.4**	**100.0%**

[1]HH No.1 Limited (£330.5m) was formed during the year following a restructure of Heylo Housing Group, in which the Fund previously held both equity and loan investments. These former investments were held on the Fund's net asset statement within long term credit funds (2018/19: £352.0m).

The following individual investments represent over 5% of the net assets of the fund.

31 March 2019			31 March 2020	
£m	**% of total fund**		**£m**	**% of total fund**
3,729.6	44.4%	LPPI Global Equities Fund	3,454.7	41.0%
930.3	11.1%	LPPI Global Infrastructure Fund	958.1	11.4%
923.0	11.0%	LPPI Credit Investments	947.4	11.3%
-	-	LPPI Real Estate Fund	799.7	9.5%
635.0	7.6%	LPPI Private Equity Fund	750.0	8.9%

Fixed interest securities

31 March 2019		31 March 2020
£m		**£m**
63.8	UK corporate bonds quoted	64.2
12.0	Overseas public sector	-
34.9	Overseas corporate bonds quoted	78.3
110.7		**142.5**

Index linked securities

31 March 2019		31 March 2020
£m		**£m**
283.6	UK quoted[1]	-
283.6		**-**

[1]£283.6m at 31 March 2019 was part of the Fund's investment in Heylo Housing Limited. The company was restructured during the year and the Fund now holds an investment in HH No.1 Limited, a real estate investment trust classified as non-core property within the real estate portfolio of the Fund.

Pooled investment vehicles

31 March 2019		31 March 2020
£m	**UK funds:**	**£m**
314.7	Fixed income funds	323.8
137.0	Private equity	150.4
955.8	Infrastructure	979.3
997.0	Long term credit investments	951.4
68.6	Property funds	1,130.1
-	Diversifying strategies	90.3
	Overseas funds:	
195.3	Fixed income funds	139.6
513.4	Private equity	614.7
190.3	Infrastructure	201.7
10.1	Long term credit investments	7.6
3,729.6	Equity funds[1]	3,454.7
55.4	Property funds	-
7,167.2		**8,043.6**

[1]The LPPI Global Equities Fund includes UK equities.

Direct property investments

31 March 2019		31 March 2020
£m		**£m**
624.8	UK – freehold	96.0
137.1	UK – long leasehold	14.2
761.9		**110.2**

During the year, directly held properties with a market value of £641.3m at the date of transition were transitioned into the LPPI Real Estate Fund. These assets are now reported within pooled properties as at 31 March 2020.

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 shown in the table.

31 March 2019		31 March 2020
£m		**£m**
715.5	**Opening balance**	**761.9**
	Additions:	
3.4	• Purchases	0.5
31.2	• New construction	3.8
0.9	• Subsequent expenditure	6.7
-	Disposals	(23.6)
-	Transition to LPPI Real Estate Fund	(641.3)
10.9	Net increase in market value	2.2
761.9	**Closing balance**	**110.2**

Leases

All directly held investment properties are leased to tenants. There are no investment properties held by the Fund used for purposes other than to generate rental income.

Residual asset risk

The independent valuation of the direct property portfolio considers the level of committed tenancies amongst other variables. Lessees do not have an option to purchase the properties at the expiry of their lease period and all rental contracts include market review clauses in the event that the lessee exercises an option to renew. Rental 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 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 property managers to fill these voids. As at 31 March 2020, the Fund has the following future minimum lease payments due from tenants.

2018/19		**2019/20**
£m		**£m**
36.3	Leases expiring within one year	0.3
109.8	Leases expiring between one and five years	0.8
112.2	Leases expiring later than five years	3.2
258.3	**Total future minimum lease payments receivable under existing non-cancellable leases**	**4.3**

The above disclosures have been reduced by a credit loss allowance of 7.5 % (2018/19: 2.1%) per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This adjustment is based on experience of rents outstanding 28 days after the due date. The credit loss allowance has increased since the previous year as a result of market conditions – for example, requests for rent cancellations or deferments.

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.

Cash deposits

31 March 2019		31 March 2020
£m		**£m**
43.5	Sterling	89.6
23.6	Foreign currency	19.2
67.1		**108.8**

Note 14 - 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 2020

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	142.5		
Loan investments		3.0	
Pooled investment vehicles	6,913.5		
Pooled property investments	1,130.1		
Private equity	12.5		
Cash deposits		108.8	
Investment accruals	8.8		
Debtors		15.0	
Total financial assets	**8,207.4**	**126.8**	
Financial liabilities			
Creditors			6.7
Total financial liabilities			**6.7**

31 March 2019

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	110.7		
Index linked securities	283.6		
Pooled investment vehicles	7,043.2		
Pooled property investments	124.0		
Cash deposits		67.1	
Investment accruals	3.9		
Debtors		22.0	
Total financial assets	**7,565.4**	**89.1**	
Financial liabilities			
Creditors			6.3
Total financial liabilities			**6.3**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1.4.m (2018/19: £781.5m gain) after adjusting for directly owned property.

Note 16 - Financial instruments – fair value hierarchy

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.

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 LPPI 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.

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.

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 by the managers of 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. Ordinarily, 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. As a result of the extended reporting deadline granted by central government in response to the COVID19 pandemic, the Fund's custodian, Northern Trust, held the investment accounts open for a longer period than normal. This enabled the reporting of a number of sub-manager 31 March 2020 valuations, eliminating the need for the roll-forward approach for those Funds, which make up 23 % of the total reported market value of level 3 investments.

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.

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.

31 March 2020

	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	3,786.5	949.8	3,471.1	8,207.4
Loans and receivables	35.5	76.3	-	111.8
Non-financial assets at fair value through profit and loss (property holdings)	-	110.2	-	110.2
Net investment assets	**3,822.0**	**1,136.3**	**3,471.1**	**8,429.4**

31 March 2019

	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	4,155.9	-	3,409.5	7,565.4
Loans and receivables	67.1	-	-	67.1
Non-financial assets at fair value through profit and loss (property holdings)	-	761.9	-	761.9
Net investment assets	**4,223.0**	**761.9**	**3,409.5**	**8,394.4**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	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 Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties; existing lease terms; nature of tenancies,	Not required.
Pooled property investments – core property	Level 2	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.
Pooled property investments - non-core property	Level 3	Value of equity holding in Real Estate Investment Trust.	Underlying investment valued at existing use valuation for social housing; discount rates; house price index; retail price index; staircasing rates (the rate of progressive tenant ownership % on a part-rent, part-buy ownership agreement).	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
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 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.

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Description of asset	Assessed valuation range[1]	Value at 31 March 2020	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Private equity funds	11.7%	777.6	868.9	686.4
Infrastructure funds	5.1%	1,180.2	1,240.2	1,120.1
Long term credit	5.1%	952.9	1,001.4	904.3
Fixed income funds	5.1%	139.6	146.7	132.5
Non-core property funds	3.8%	330.5	343.1	317.9
Diversifying strategies	5.1%	90.3	94.9	85.7
Level 3 investments		**3,471.1**		

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity funds	Infrastructure funds	Long term credit funds[1]	Property funds[1,2]	Diversifying strategies	Total level 3 investments
	£m	£m	£m	£m	£m	£m	£m
Market value 1 April 2019	**198.2**	**650.3**	**1,146.1**	**1,290.9**	**124.0**	**-**	**3,409.5**
Purchases during the year and derivative payments	-	128.7	108.6	-	163.2	96.0	496.5
Sales during the year and derivative receipts	(72.0)	(147.5)	(21.2)	(4.0)	(49.9)	-	(294.6)
Transition of assets from credit to non-core property	-	-	-	(330.5)	330.5	-	-
Transition to fair value level 2[2]	-	-	-	-	(234.2)	-	(234.2)
Unrealised gains / (losses)	(6.3)	80.0	(57.5)	(40.5)	(3.1)	(5.7)	(33.1)
Realised gains	19.7	66.1	4.2	37.0	-	-	127.0
Market value 31 March 2020	**139.6**	**777.6**	**1,180.2**	**952.9**	**330.5**	**90.3**	**3,471.1**

[1]The Fund's investment in Heylo Housing Limited was restructured during the year. The previously held equity and debt investments were realised and converted at nil gain or loss to an equity holding in HH No. 1 Limited, a real estate investment trust. The Fund has reclassified this investment from long term credit investments to pooled (non-core) property funds.
[2] Pooled property investments brought forward at 1 April 2020 were transitioned into the LPPI Real Estate ACS during the year. The LPPI Real Estate ACS is categorised as level 2 within the fair value hierarchy.

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (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.

Market risk

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

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

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

Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2019/20 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.3%
Total equities	11.7%
Alternatives	5.1%
Total property	3.8%

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 2020	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	**%**	**£m**	**£m**
Investment portfolio assets:				
Total equities	4,232.3	11.7%	4,728.8	3,735.8
Alternatives	2,702.3	5.1%	2,839.9	2,564.7
Total property	1,240.4	3.8%	1,287.6	1,193.2
Total bonds (including index linked)	145.6	6.3%	154.8	136.4
Total assets available to pay benefits	**8,308.8**		**9,011.1**	**7,630.1**

Asset type	31 March 2019	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	4,380.0	9.8%	4,807.4	3,952.5
Alternatives	2,946.8	7.7%	3,173.7	2,720.0
Total property	886.0	4.0%	921.5	850.6
Total bonds (including index linked)	110.6	6.7%	118.0	103.2
Total assets available to pay benefits	**8,323.4**		**9,020.6**	**7,626.3**

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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2019	Asset type	31 March 2020
£m		£m
67.1	Cash and cash equivalents	108.8
67.1	**Total**	**108.8**

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 +/- 1% change in interest rates:

		Impact of	
	31 March 2020	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	108.8	1.1	(1.1)
Total change in assets available		**1.1**	**(1.1)**

		Impact of	
	31 March 2019	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	67.1	0.7	(0.7)
Total change in assets available		**0.7**	**(0.7)**

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 2020 and as at the previous year end.

31 March 2019	Currency exposure – asset type	31 March 2020
£m		£m
4,243.0	Overseas equities	4,068.5
395.7	Overseas alternatives	348.9
55.4	Overseas property	-
46.9	Overseas bonds (including index linked)	78.3
4,741.0	**Total overseas assets**	**4,495.7**

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 7.2%. A 7.2% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2018/19: 8.0%).

A 7.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2020	Potential market movement +/- 7.2%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,068.5	294.0	4,362.5	3,774.5
Overseas alternatives	348.9	25.2	374.1	323.7
Overseas bonds (including index linked)	78.3	5.7	84.0	72.6
Total assets available to pay benefits	**4,495.7**	**324.9**	**4,820.6**	**4,170.8**

Currency exposure - asset type	Asset value at 31 March 2019	Potential market movement +/- 8.0%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,243.0	341.1	4,584.1	3,901.9
Overseas alternatives	395.7	31.8	427.5	363.9
Overseas property	55.4	4.5	59.9	50.9
Overseas bonds (including index linked)	46.9	3.8	50.7	43.1
Total assets available to pay benefits	**4,741.0**	**381.2**	**5,122.2**	**4,359.8**

Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £108.8m (31 March 2019: £67.1m) and was held with the following institutions:

31 March 2019 £m	Summary	Rating	31 March 2020 £m
	Bank deposit accounts		
58.3	Northern Trust	Aa2	33.1
7.6	Svenska Handelsbanken	Aa2	75.7
	Cash float with property manager		
1.2	Barclays Bank Plc	A1	-
67.1	**Total**		**108.8**

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. 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.

The Fund has financial liabilities of £6.7m at 31 March 2020, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

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, Utmost Life and Pensions 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 2019 to 31 March 2020 for Prudential and 1 September 2018 to 31 August 2019 for Equitable Life/Utmost Life and Pensions 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 / Utmost Life and Pensions[1]	**Prudential**	**Total**
	£m	**£m**	**£m**
Value at start of the year	**0.6**	**29.0**	**29.6**
Income (incl. contributions, bonuses, interest and transfers in)	-	6.5	6.5
Expenditure (incl. benefits, transfers out and change in market value)	-	(4.2)	(4.2)
Value at the end of the year	**0.6**	**31.3**	**31.9**

[1]AVC investments held by Equitable Life were transferred to Utmost Life and Pensions during the year.

Note 19 - Current assets

31 March 2019		31 March 2020
£m		**£m**
8.0	Contributions due – employers	9.0
4.9	Contributions due – members	5.2
9.1	Sundry debtors	0.8
22.0		**15.0**

Note 20 – Current liabilities

31 March 2019		31 March 2020
£m		**£m**
0.8	Unpaid benefits	0.8
5.5	Accrued expenses	5.9
6.3		**6.7**

Note 21 - Contractual commitments

As at 31 March 2020 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £409.3m (2019: £566.2m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £93.7m (2019: £190.9m). 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.

There are no outstanding commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio (2019: £21.9m).

During the year, the Fund's total outstanding commitment to the indirect real estate fund has been called and the commitment therefore reduced to nil (2019: £22.0m). The associated investment has been transferred to the LPPI Real Estate pool.

Note 22 - 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.

Lancashire County Council

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

The Council incurred costs of £0.6m (2018/19: £0.5m) 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 £33.2m to the Fund in 2019/20. Total employer contributions from the Council in 2018/19 amounted to £32.6m. 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 2020 amount to £5.4m (2018/19: £5.5m).

During the year to 31 March 2020, the Local Pensions Partnership repaid £17.5m loan finance to Lancashire County Council.

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2020.

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 2020 payroll, are included within current assets in note 19.

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 2019/20 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2020.

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

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2019/20

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/19 – 31/03/20	57,801	8,728	66,529
Director of Finance	01/04/19 – 31/03/20	2,148	305	2,453
Chief Executive and Director of Resources	01/04/19 – 31/03/20	4,326	-	4,326

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

2018/19

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/18 – 31/03/19	56,667	8,557	65,224
Director of Financial Resources/Finance	01/04/18 – 31/03/19	1,938	293	2,231
Chief Executive and Director of Resources	01/04/18 – 31/03/19	4,029	-	4,029

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

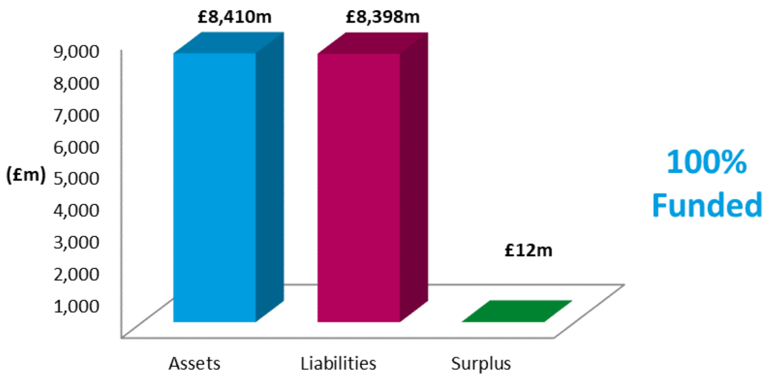
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2020 - 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 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,410 million represented 100% of the Fund's past service liabilities of £8,398 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £12 million.



The valuation also showed that a Primary contribution rate of 17.4% 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 FSS is to achieve and 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. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 16 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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 Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.8% per annum	4.55% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. Once the final remedy is known, the position and any potential impact will be reviewed by the Fund in light of the current funding strategy (which includes an implicit allowance for the estimated costs).

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall Fund level we estimate that the cost of the judgment is an increase in past service liabilities of broadly £68 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial present value of promised retirement benefits for the purposes of IAS 26

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 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases	3.7% per annum*	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £10,987 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£265 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£145 million (this includes any increase in liabilities arising as a result of early retirements and GMP indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £345 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £11,052 million.

GMP indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £40 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

John Livesey Fellow of the Institute and Faculty of Actuaries Mercer Limited June 2020	Mark Wilson Fellow of the Institute and Faculty of Actuaries Mercer Limited June 2020

Note 25 – Events after the reporting period

Non-adjusting event – COVID19 pandemic

The outbreak of COVID-19, declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in all sectors by the efforts being made to reduce the spread of the virus. There have been a number of material factors which make it difficult to quantify the potential outcome for financial markets. Although there has been significant variation to individual fund values (both increases and decreases), as at end of June 2020, investments are valued overall at a higher value than in these financial statement at 31 March 2020.

Governance statements

Harris Museum and Art Gallery, Preston
Photo: Jeanette Moister

Executive summary

The Leader of the County Council (County Councillor Geoff Driver CBE) and Chief Executive and Director of Resources (Angie Ridgwell) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the County Council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working across the group. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk & Governance Committee undertake a review of the Council's governance framework and the development of the AGS.

This year, the Covid-19 (CV-19) crisis has brought unprecedented challenges for local government and the County Council has sought to minimise disruption to the services we deliver. The County Council has shown that it can thrive in the most challenging of circumstances. We have seen a combination of a flexible dynamic committed workforce and implementation of new ways of working that will reshape the council going forward.

The first week of the crisis was a logistical challenge translating work patterns and programmes into a different operating model. In some respects we did six months transformation in a week. As we move to recovery we will look to build on the best parts of our response that point the way to the future.

Whilst CV-19 will have impacted on our governance during March 2020 we also need to ensure that the AGS is current at the time of its publication, so it is essential therefore that the AGS reflects the impact of the CV-19 pandemic on governance. Therefore we will include a second conclusion on the adequacy of governance arrangements during this period to make clear the impact.

The impact on governance falls broadly into the following broad categories:

- Impact on business as usual in the delivery of services
- New areas of activity as part of the national response to coronavirus and any governance issues arising
- The funding and logistical consequences of delivering the local government response
- Assessment of the longer term disruption and consequences arising from the coronavirus pandemic.

Once the crisis is over we will conduct a review of the lessons to be learned from our response. As such, this will be one of the organisation’s significant governance issues for 2020/21.

On the 27 July 2020 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run. The final statement is signed by the Leader of the Council and Chief Executive and Director of Resources.

Governance issues

Overall it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues which are currently underway but not yet completed:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Reshaping the Council • Delivering Our Improvement Journey • Develop a sustainable financial strategy	Chief Executive & Director of Resources Director of Organisational Development & Change Director of Finance	 31 March 2021 Ongoing
Getting to Good (Children's Social Care)	Executive Director of Education and Children's Services	Ongoing
Response to Special Educational Needs and Disability (SEND) inspection	Executive Director of Education and Children's Services	Ongoing
Managing major projects	Executive Director of Growth, Environment and Transport	31 March 2021
Financial leadership challenges in health and social care	Executive Director of Adult Services & Health & Wellbeing	31 March 2021
Core systems and data	Director of Strategy and Performance	31 March 2021
Future provision of ICT Services	Chief Digital Officer	31 March 2021
Response to and recovery from CV-19	Chief Executive & Director of Resources	Ongoing

Progress made against the issues identified in last year's AGS is reported in this year's statement.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

G Driver

County Councillor Geoff Driver CBE
Leader of the Council

A Ridgwell

Angie Ridgwell
Chief Executive and Director of Resources

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/Solace "*Delivering Good Governance in Local Government Framework*" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

As mentioned in the executive summary, coronavirus will have impacted on governance during March 2020 and authorities also need to ensure that the AGS is current at the time of its publication, so it is essential therefore that the AGS reflects the impact of the Covid-19 pandemic on governance.

What is 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.

Key elements of the council's governance framework

Leader, Cabinet and Council	Decision making	Risk and performance management
• The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets council tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework)	• Meetings are held in public and many are webcast • Decisions are recorded on the Council's website • Scheme of delegation	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors complete assurance statements
Council's leadership team	**Scrutiny and review**	**External and internal audit and review**
• Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review council policy, decisions and budget proposals • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections that provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found on our website. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. 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.

Managing risk and performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Risk Register.

Service risk and opportunity registers are updated regularly and the Corporate Risk and Opportunity register is reported to Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis. Following a pilot in Education and Children's Services, CMT have agreed to report risks at a directorate rather than service level and introduced a risk profile summary to improve decision making. This has not yet been implemented across the organisation as quarterly reporting was suspended as a result of Covid-19. Instead, weekly service level situation reports were introduced and continue to be in place. The Corporate Risk & Opportunity register and further information about the approach to risk management can be found on our website.

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme. The final outturn position was reported to Cabinet in July. Financial Monitoring Boards are also embedded to oversee challenge options that have been agreed as part of budget savings with exception reporting to CMT.

Last year, Full Council agreed a new corporate strategy 'Our Vision for Lancashire' that includes a new set of high-level metrics which will enable the overall success and progress of the strategy to be monitored and demonstrated. Members of all Scrutiny Committees were invited to attend the 'Corporate Strategy – Scrutiny of Key Metrics' workshop held in June 2019, to debate the proposed key metrics or identify additional ones. The outcomes of the workshop were reported to CCPI.

In addition to the high-level metrics relating to the strategy, the CCPI will continue to regularly receive the more detailed, service specific performance metrics which enable members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). A detailed forward plan for the annual reports has been developed with the Leader of the County Council, as Chair of the Cabinet Committee on Performance Improvement.

A new Performance Board was established that is chaired by the Director of Strategy & Performance. The Board receives a suite of performance dashboards, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action to CMT. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data quality. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

Managing our resources (value for money)

The Council's external auditors, in their assessment of 2018/19, gave an unqualified opinion on the Group's financial statements on 29 July 2019 and were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources this year.

The auditors commented that the Council’s financial position remains challenging and continuing reliance on reserves is recognised as unsustainable. The savings programme and budget gap remains highly challenging, and it is important that the momentum for change established over the last few years is maintained and financial control remains robust.

Therefore, throughout 2019/20 projections were reported to both the CMT and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. However, this will be impacted by our response to CV-19 and the forecast will need to be reviewed in light of any central government funding proposals for local government.

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial sustainability

Financial sustainability remains the greatest risk facing the County Council. However, whilst the council's financial position has not been fully stabilised, over the course of the last year considerable work has been done to improve it.

As a result, the 20201/21 revenue budget approved at Full Council did not require any structural funding support from reserves and it was anticipated that available reserves will be sufficient to support the council's expenditure until at least 2022/23. However, whilst work is continuing to identify further savings so that a financially sustainable position can be achieved, the impact of CV-19 on the council's financial resources is not clear at this time. Further information on this is set out in the specific section on CV-19.

The Council regularly updates its medium term financial strategy. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels. The forecast is necessarily underpinned by a range of estimates and recommendations through the Corporate Management Team, Cabinet and the Audit, Risk and Governance Committee.

The financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

Public Bond issue

The county council has been considering long term loan financing through accessing the capital markets and using alternative sources of funding to the Public Works Loan Board for many years. Some of the perceived obstacles that have prevented us from pursuing these options in the past have been addressed and it was considered that the pursuit would now enable the council to obtain financing at reduced costs. This was agreed by Cabinet in February 2020.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management

The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2019/20 that reports on service compliance and they produce in-year quarterly service risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

The Monitoring Officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to Directors and Heads of Service.

The role of the Audit, Risk and Governance Committee

The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud, treasury management and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

In addition to the standard items on the agenda, the committee considered reports on the following:

- Code of Conduct – Summary of Complaints. For this item the appointed 'Independent Persons' who advise the Conduct Committee, were invited to attend the meeting in October 2019.
- Update report: Outstanding actions from 2017/18 Audit work programme, Adult & Children's Services
- Update on Neighbourhood Wellbeing Grants

In July 2019, the Chairman presented his second annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness. Appropriate training and development opportunities have been put in place during the year.

Further information about the role of the Committee can be found here on our website.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the Council's governance, risk management and control frameworks and therefore the extent to which the Council can rely on them. The Internal Audit Annual Report and opinion have been considered in the development of the Annual Governance Statement.

Audit work has progressed well against an ambitious plan and **75%** of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited. Despite the challenges facing managers across the council the Internal Audit Service has been welcomed and supported in undertaking its work during 2019/20. The auditors have withdrawn from work in some areas where necessary whilst further action has been taken by management to understand the issues and plan the improvements still required but, overall until March 2020, have had access to services in every directorate.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that **moderate** assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control for 2019/20. The organisation still faces a number of challenges, as set out in the rest of this statement, and during the year a number of areas were subject to ongoing necessary improvement as well as additional cost-saving activity. Even before the onset of covid-19 there were still considerable demands on the council's resources that put the improvement of its services, systems and processes at risk. The need to support service improvements and cost savings with improvements in ICT systems in particular remains, and will be particularly challenging in the coming year as the council prepares for the return of the ICT Service from BT Lancashire Services Ltd. However the organisation as a whole is well controlled and is clearly demonstrating its strong ambition to improve further.

External assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

Information governance

The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer. Last year, the Council was being monitored by the ICO in terms of response times to subject access and freedom of information requests. In response we improved capacity and put in place better monitoring procedures. In June 2020 the ICO informed us that they were satisfied that we had acted promptly to remedy the issue and ceased monitoring.

Local government and social care ombudsman

During 2019/20 Full Council considered three public reports from the Local Government & Social Care Ombudsman in relation to children's social care.

In all three cases the Ombudsman found fault causing injustice. Full Council noted the actions already taken and endorsed further actions to remedy the complaints.

Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2019/20 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

Scrutiny committees

The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process
- Considers and formulates recommendations on Cabinet budget proposals
- Monitors progress of agreed budget savings

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

Political governance

During the year, the Political Governance Working Group met with the remit to make recommendations to Full Council on revisions to the Constitution, Standing Orders and other democratic processes and procedures. The working group operates on a cross party basis with representation from all political groups. The working group recommended changes to standing orders that were adopted by Full Council. The agreed changes focused on Full Council procedures, including Question Time and Notices of Motion. The protocol on language and behaviour was also updated. At its meeting in February 2020 Full Council agreed a number of changes to the Constitution including: updates to Articles 2, 3 and 8 to bring the wording in line with current practice, amendments to the Terms of Reference of the Regulatory Committee and a change to the designated Statutory Scrutiny Officer.

Looking back on 2019/20

Several improvement actions were identified as part of the 2019/19 Annual Governance Statement. All of these have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

Reshaping the Council

A lot of excellent work had taken place in 2018/19 with the implementation of the Operational Plan and adoption of a Corporate Strategy. However, there was a risk that the council would not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed during 2019/20 and beyond.

Without the required workforce plans, capacity and skills in place, or the necessary drive to support and deliver a financially sustainable organisation, there was a risk that change opportunities were missed that may result in us not meeting the needs of service users or delivering a balanced budget.

Therefore, building on the achievements of the Operational Plan, the County Council pursued two priorities in 2019/20:

1. Through our People Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation

   This focused on:

   - Supporting the development of managers through continued leadership and management modules
   - Workforce sustainability including succession planning & recruitment and retention
   - Continuing use of the apprenticeship levy to increase the number of apprentices and support critical development needs
   - Continuing to respond to the issues raised in the staff survey
   - Managing absence effectively

During the year, we implemented a new recruitment system to improve the speed of recruitment and streamline processes. To attract people to work for us we started building a Lancashire brand and established a new career website. A new suite of leadership and management modules to support our managers were introduced that are linked to national standards.

The staff survey was completed and analysed. Managers have put in place action plans to address the issues raised. There has been a key focus on health and wellbeing to improve attendance at work and embed a healthy workplace. A narrative on 'Our Improvement Journey' was published with an aspiration to be Council of the Year 2021. To support us with this aspiration, Cabinet agreed to appoint a partner to work us on organisational development. Initial scoping work and a diagnostic has been completed as part of the concept and shape phase. The Concept and Shape sprint exercise which the Council undertook between Jan 2020 and April 2020 resulted in a final report which sets out the current position, and proposes 6 key areas of activity in the future which will help to deliver Our Improvement Journey:

- Our customer experience
- Our staff experience
- Our strategies and priorities
- Our process
- Our digital and technology
- Transition governance

2. Embed a focus on service delivery

Building on the success of the service challenge work carried out during 2018, a phase 2 service challenge process was implemented to help reduce the financial gap that is still anticipated for 2022/23. To take this forward a new board was established to oversee the process. Several cross-cutting strands were identified to develop new savings proposals and as a consequence this constituted the programme of work focused on developing a sustainable financial strategy. In addition to the cross-cutting themes, some services from phase 1 were subject to further challenge based on updated benchmarking data. The outcome of the challenge process was fed into the budget setting process.

Getting to Good

There were continued pressures throughout 2019/20 on our children's social care services, with high rates of children in need, child protection and children looked after (CLA), a position which needed to be safely reversed. More recently, CLA numbers have started to stabilise, with a stronger focus on permanence and a move away from a risk model to a more strengths based approach to practice. Data relating to children and young people leaving care showed a need for continued focus on the support that we provide to enable young people to live in suitable accommodation and to access education, employment and training. More positively, the experience of our workforce grew, and average caseloads continued to fall, helping to ensure that more visits were occurring on time and that there was better supervision. Strengthened leadership is helping to ensure an increasingly confident and experienced workforce and we are seeing good performance against an increasing number of key indicators. Our decision to implement Family Safeguarding will give us challenge to improve practice.

Our progress on key areas included:

- Developed a Multi-agency Early Help Strategy which has been endorsed by the Children, Young People & Families Partnership Board. This will support a cultural shift towards an enabling asset based approach that recognises the potential in families to help themselves

- Early Help Partnership Officers were appointed (September 2019) in each area to support partners in their delivery of the multi-agency early help strategy
- Our social work workforce is growing in experience. Social workers know their children well and the June 2019 Peer Review found examples of good practice observed from both experienced social workers and newly qualified (AYSEs). Turnover rates for social workers remains low
- Alongside our work on Early Help, we began work to implement the Family Safeguarding Model in Lancashire, building on national best practice and using the approach to build strength based practice
- Our performance management arrangements and management oversight has led to improved practice in response to issues we identified. For example, the timeliness of assessments is currently at 88.8% (Dec 19), well above national, north west and statistical neighbour rates, and an improvement from 82% in 2018/19
- A Permanence Action Plan and Sufficiency Strategy was developed to help reduce Children Looked After numbers and increased use of family group conferencing as a demand management strategy

Managing major projects

Control measures had been put in place for projects that reflected the Major Projects Review. Key projects for the year were to be included in the following programmes:

- Preston, South Ribble and Lancashire City Deal
- Growth Deal (e.g. Advanced Manufacturing Research Centre)
- Enterprise Zones (e.g. Samlesbury)

Each project was developed in line with the processes established in the Major Projects Review and the Capital Board continued to monitor progress. An Internal Audit identified that a considerable amount of work had been completed on the asset management strategy that underpins both the capital strategy and the development of a risk register for the capital programme.

- Internal Audit have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems
- The establishment of a Quarterly Portfolio Review Board at Head of Service level will manage issues and escalations

Core Systems and Data

As part of the senior management restructure completed last year, Core Systems and Business Intelligence were brought together under the direction of the Director of Strategy & Performance. This allows them to be considered in their entirety to ensure synergies are optimised so that consistent and triangulated management information is delivered alongside measurably improved service performance. This was further strengthen by the appointment of a Chief Digital Officer. Such a move is consistent with the highest performing councils and ensures the delivery of organisational performance sits with the directorate ultimately responsible for the setting of the organisation's strategic direction.

The decision on not to extend the BTLS contract creates new expectations for how we are going to deliver services to our customers and the launch of the Digital First Strategy has given us an ambitious programme and focus for the future. The appointment of a Chief Digital Officer strengthens the IT

Leadership capacity and will help deliver on these and other major programmes for staff, customers, residents and Members.

Our progress on key areas included:

- 'Project Accuracy' for Adults Services focussing on procedures and data quality. A 'Proof of Concept' project is underway which will quantify the cost and resource needed in order to develop the trackers from core systems. This solution will form part of the Business Intelligence toolkit for use across the council. A data quality dashboard is included which will support work to improve data quality
- A Corporate Reporting Strategy has been developed by Business Intelligence in conjunction with Core Business Systems and BT Lancashire Services. This is also featuring as part of the data strategy which forms part of the Council's Digital First strategy
- The Internal Audit Service have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems

Special Educational Needs & Disability (SEND)

The Special Educational Needs and Disabilities (SEND) Written Statement of Action (WSoA) has been implemented by Lancashire partners. There has been a significant focus on developing governance, accountability, strategic direction, establishing key posts and engaging partners, including parents and supporting the new, independent Parent Carer Forum to engage as an equal, strategic partner.

We are clear that some of our services still require improvement; the WSoA was revised and supported by an Improvement Plan for 2019-2020; of the 47 actions; 33 had been completed and 14 were carried forward into the Improvement Plan. The plan, agreed in April 2019, set out the action partners will continue to take together as part of the improvement journey.

Our progress on key areas included:

- Improvements in the quality of Education, Health and Care Plans took place; a quality framework has been agreed and individual service quality assurance, training, and audit is supported by multi-agency audits. A plan to accelerate the pace of change was agreed
- Leaders from across the partnership are working together strategically to deliver a shared vision.
- The SEND Partnership is now well established, involving all key partners, parents, carers and young people. Governance structures are clearly defined and the Partnership has a shared vision and strategy.
- Parents and carers are part of the strategic governance and leadership arrangements in Lancashire. A variety of communication mediums have been established and are being embedded. The Parent Carer Forum members are active members of the Partnership.
- A Partnership Improvement Plan is in place to ensure that the progress made to date continues to take place. The Partnership board is proactive in addressing delay and/or limited progress; agreeing five Accelerated Progress Plans where it is felt insufficient progress has been made to improve outcomes for children, young people and families or where pace has been slow to implement agreed action

The SEND revisit by Ofsted and the CQC was completed in March 2020. However, as all Ofsted and CQC inspections are currently suspended we do not expect to receive the published report for some time and this will be following the re-introduction of inspection processes.

Residential Rehabilitative Support

The review of Residential Rehabilitative Support concluded with a final report at the end of May 2019. The Better Care Fund Steering Group reviewed the report and identified that there were additional benefits and opportunities for significant improvement and cost savings across the NHS – local government system. An Advancing Integration Board that the Executive Director of Adult Services & Health & Wellbeing co-chairs with an Accountable officer from East Lancashire CCG stepped up to progress this programme and reports into the Health & Wellbeing Board and Integrated Care System.

Early discussions suggest an exit from this model of delivery may be agreed in Pennine (during 2020/21) and Fylde Coast (2020/21 and beyond), but other areas have yet to reach conclusions.

Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

We can evidence significant and sustained change for the families in Lancashire through the interventions of the Troubled Families Programme. The programme has been extended up to March 2021. During this year the national team will be working with us to develop a proposal to continue or replace the current programme which will be submitted for consideration by ministers.

Recruit & retain experienced staff across the organisation

A strategic approach to further develop succession planning requirements across the organisation is underway. This will include the recruitment to 'hard to fill' posts and reduce the reliance on agency staff. Proposals on reshaping the apprenticeship programme to maximise the apprenticeship levy and support the delivery of the Peoples Strategy started to be implemented. Work on developing a more focused graduate offer commenced and steps to improve the health and wellbeing of staff through initiatives such as the 'time to change' programme were implemented. As mentioned earlier we have established a new career website and developed the 'Lancashire Brand'.

Future provision of ICT services

The current ICT contract expires on 31 March 2021. Failure to put in place suitable arrangements will impact on organisational effectiveness and service delivery so we engaged the Society of IT Management to undertake an independent review of our options. The review considered current provider service performance and how it benchmarks with other authorities.

Following the review, Cabinet agreed not to extend the current contract and transfer the service back into the council. To facilitate this an ICT transition partner was appointed together with a Chief Digital Officer. Appropriate governance arrangements have been put in place.

Financial leadership challenges in health and social care

A new risk that emerged during 2019/20 focused on the collective leadership ability to ensure secured joint funding to support vulnerable children and adults. Mitigating actions included:

- Health & Wellbeing Board (HWBB) oversight of key priorities including intermediate care and SEND
- Individual Patient Activity (IPA) Board established for adults/children's services to develop effective arrangements for joint funding. The IPA was set up by NHS under the aegis of the ICS to tackle the delays in funding primarily for individuals being considered for continuing healthcare
- SEND Partnership Board providing system governance for the SEND Improvement Plan
- Internal Health Integration Board established to ensure a clear county council approach to integration
- Representation at key Integrated Care System meetings has been agreed including cabinet member at executive board level and chief executive at system leadership executive level
- Review of Health and Wellbeing Board Arrangements including support for a more significant role

Neighbourhood Wellbeing grants

It was reported to Audit, Risk & Governance Committee in May 2019 that there had now been some contact with all recipients of the grant apart from one who had received £1,000 (this recipient had since ceased operations).

Contact had also been made with an additional 2 organisations and the requested paperwork was anticipated (now received). Partial monitoring information had been received for a further 5 organisations. In total this equated to less than 3% of the grant funding issued. An update has been provided on the progress of the remaining groups to members of the committee outside of the Committee meeting.

Responding to the Coronavirus pandemic

CMT agreed to add CV-19 to the Corporate Risk register at the beginning of March 2020 and started to consider its implications. However, events moved very quickly and the council's response is set out in a separate section of this statement.

Governance challenges for 2020/21 and actions to be taken

Reshaping the council

Our Improvement Journey - In 2019/20 we commenced on Our Improvement Journey with an aspiration to be council of the year 2021. This work stopped when staff were redeployed into new roles to respond to the CV-19 pandemic. However, as we move out of crisis response to recovery our focus will be on how we can develop Our Improvement Journey to help deliver our vision. The first phase of the journey – concept and shape – has been completed. A new set of priorities have been agreed and the next stage will be to turn everything we have learnt from phase one into a series of plans for how we support our staff and partners to deliver those priority improvements. We have recently appointed a new Director of Organisational Development and Change to lead this work.

CMT have recently agreed our transitional approach that sets out the priority areas to focus on in the short term as we look to align our recovery efforts following Covid-19 with our improvement journey. Phase 1 work packages will be developed in 4 key areas (all of which will support recovery) and we will be looking to commence:

- Staff experience (reconnecting with staff)
- Customer experience
- Programme governance
- Data and insight

Further work packages will be developed based on the high-level action plans set out in the final Concept and Shape Report, for roll-out as we transition into recovery & beyond.

Financial Sustainability - Like many councils, Lancashire County Council is facing significant financial pressures, and whilst good progress has been made in addressing the forecast financial shortfall over the medium term, further work is required to ensure the council can achieve a financially sustainable position. To achieve a balanced budget from 2022/23 the Council will need to address a funding gap of around £33M million (but this is necessarily being reviewed and updated in light of CV-19) and the increased uncertainty regarding future funding and spending pressures.
Work continues to address the budget deficit through a number of work streams that include - Organisational, Finance & Commercial and Health & Care.

There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings as a result of our response to CV-19 will further impact on achievability. The Service Challenge Board will continue to have oversight and progress will be monitored by Financial Management Boards at service level.

Getting to Good

Children's Social Care - We will continue to establish the new senior leadership team, following the appointment of two new Directors for Education and Skills and Children's Social Care in 2019/20. We will refresh our Getting to Good Plan to ensure continued focus and pace in improving the quality of practice, making the shift from 'requires improvement' to 'good', using 'sprints' to achieve traction. Implementing the Family Safeguarding approach will help us secure progress against the 'good criteria' with a focus on demand management and permanency for children outside of local authority care. We will look to maintain and improve our performance, working with Partners in Practice to support work on improved use of performance data and work to ensure consistency of practice across localities.

Our other improvement priorities include multi-agency work on thresholds, completing the MASH / Front Door review and strengthening the multi-agency early help offer.

Special Educational Needs & Disability (SEND) - There has been a significant focus on developing governance, accountability, strategic direction, establishing key posts and engaging partners, including parents and supporting the new, independent, Parent & Carer Forum to engage as an equal, strategic partner. Our improvement priorities for the next twelve months include:

1. Delivering our 5 Accelerated Improvement Plans
    - Quality of Education, Health and Care Plans (EHCP’s)
    - Education Outcomes
    - Transition arrangements
    - Information about the Local Offer
    - Implementing Neuro-development Pathway

2. Being clear about maintaining our challenge to
    - Improve the experience for those using our services
      e.g. to the process of transition in health, education and social care
    - Accelerate our pace to improve quality and outcomes
      e.g. quality of EHCP’s and outcomes in education
    - Demonstrate that we have made a difference
      e.g. to the lives of our children as they become young adults

3. Showing we are committed to a coherent way of working by
    - Extending our Joint working arrangements
      e.g. delivering the CAMHS re-commission and the neurodevelopmental pathway
    - Improving service practice to better meet need
      e.g. implementing the Behaviour Strategy with our education and health providers
    - Reviewing provision and the estate to support our offer
      e.g. reshaping the school offer in line with identified need

Future provision of ICT Services

The BTLS contract comes to an end on the 31 March 2021 and we are currently preparing for this. The contract is, however, much more than just ICT, and we will need to ensure that all the services that are currently delivered by BTLS are transferred back to the council in a seamless manner. This will involve co-working with Lancashire Constabulary, West Lancashire Borough Council, schools and others to be successful. The Chief Digital Officer will be guiding this contract to its conclusion in a safe managed way so that the services, staff, and customers are looked after and the opportunities that 'in house' services bring are realised to the maximum.

Core systems and data

The Digital Delivery Plan will be a living document and will therefore be subject to regular change; it will always reflect the current set of in-flight projects we are working on and projects we have identified on the horizon that will need delivering in order to ramp up Lancashire's digital maturity, all in keeping with the council's Digital Strategy.

Core Systems working with Business intelligence and BTLS (our ICT providers) also completed a review of reporting across the authority. This will help shape our Business Intelligence and Reporting Strategy. The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies.

A Performance and Finance Management subgroup of Corporate Management Team has been established to enable more focussed management of performance. Interactive dashboards are being developed by Business Intelligence to facilitate this group.

Managing major projects

There are now control measures in place for projects and as we move towards recovery key economic development projects will make a major contribution in helping the Lancashire economy bounce back from the crisis. Each project will be developed in line with the processes established in the Major Projects Review and the Capital Board will continue to monitor progress.

Financial leadership challenges in health and social care

To reduce the risk that system leadership is unable to address the financial health and care challenges of our population to improve outcomes for children and adults, during 20/21 we will focus on:

- Working with partners to review the Health & Well Being Board to improve oversight and challenge
- Delivering against the project plans and activity agreed through children and adults Individual Placement Agreement Boards
- Continued engagement with the health system to ensure we understand the expected impact of the proposed move to a single Clinical Commissioning Group
- Completing the review of Health and Wellbeing Boards
- Ensuring effective linkages between different levels of representation on ICS groups
- Ensuring the county council is clear about priorities for integration through the internal Health Integration Board

Combined Authority for Lancashire with an Elected Mayor

We have agreed to support work on the development of a combined authority with an elected mayor. The establishment of a combined authority for Lancashire is an opportunity to create a single, clear and influential voice for Lancashire. It is a mechanism to gain powers and funding from Government.

Monitoring implementation

The key governance challenges facing the Council in 2020/21 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

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

Conclusion

Overall, the County Council has the appropriate systems and processes in place to ensure good governance is maintained. Whist these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the County Council will continue to be monitored by the Audit, Risk & Governance Committee, Cabinet and Corporate Management Team.

Responding to the Coronavirus Crisis

There has been a tremendous amount of work done by staff and with our partners to ensure that our emergency response has been effective. During this crisis we have had two goals:

- To protect the most vulnerable
- Make sure our most vital services continue to be delivered

We have completely transformed the way in which we do our businesses which is a testament to our preparedness to face emergencies. We could not have predicted the scale and scope of the challenges that this emergency has presented, but because we have exceptionally good business continuity plans, we have been able to rise to those challenges at speed. We recognised that partnership working is the key to an effective response, and have been central to the ramping up of the Local Resilience Forum (LRF) to become the central hub for all activity.

We aligned our response to the LRF structures to ensure clarity and continuity between our internal work and the wider partnership activity. This means that we have a clear understanding of our essential role and can move and adapt to changing circumstances. More recently we have reviewed our structures and established a Covid-19 Corporate Recovery Group.

Impact on business as usual in the delivery of services

Our extraordinary response to this emergency means we have been able to continue to delivery vital services to the people of Lancashire. That is not to say that it has all been plain sailing. The rapidly-developing situation has meant that we have had to make decisions that we have had to change, and have sometimes made mistakes, but these have all been quickly dealt with to ensure that we remain on course and we have managed to:

- Keep more than 500 schools open throughout the lockdown period to support the children of key workers and our most vulnerable families. Families who receive free school meals were supported with a meals service and we have sent a daily bulletin out to schools, as well as continually updating our schools portal so that they have the most up-to-date information and advice. Schools remained open over the Easter period and we expected more than 900 pupils to be attending school across the county .
- There are more than 400 care homes across Lancashire and to ensure that they have the most up-to-date information have created a new portal on our website where we have been posting all the latest advice and regularly updating the most comment questions and queries that those homes have. We have also hosted online care provider conferences that have been attended by hundreds of providers. We launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating. We received expressions of interest from hundreds of people from across the county.

- We have supported district councils in setting up their community hubs which are now in place in all 12 of our districts. We are also responsible for providing a significant amount of support to the most vulnerable and have ensured there is clear lines of communication with our district colleagues.
- School appeals will be heard over the summer months. Due to social distancing measures these will be heard remotely.
- Internally we have moved from being an organisation which is primarily location-based to one that is primarily remotely-based. We have had record numbers of people using our systems remotely with thousands of laptops being distributed to staff in the space of days.

Many staff who were not in roles which are critical to the emergency response have been shifted to new duties to support the response. As the crisis progressed and the demands on our services and colleagues changed, we placed our resources where they had the most benefit. A new Internal Resource Pool was established. The pool comprised over 1000 staff and the critical functions that have received staff from the pool include:

- CAPACITY TRACKER - to contact community and residential care providers regarding CV-19. The role is to make telephone calls to care providers in Lancashire on a daily basis to understand their current operating position, staffing and any issues related to the current CV-19 situation
- PROVIDER ASSISTANCE - a contacts list of 'go to people' quickly if a care home falls over and we need to keep it running
- HOSPITAL DISCHARGES - in Care Navigation, staff needed to ring around care homes to identify places and so help with hospital discharges. This freed up beds for critical care patients
- PROVIDER QUERIES - Contract Management Responding to social care provider Queries
- INFECTION CONTROL RECORDING - Business support staff recorded details of infection notifications
- INFECTION CONTROL ADVICE - ex nurses or social worker helping to provide infection prevention advice to care homes who are reporting outbreaks and concerns with CV-19
- PROVIDER ESCALATION TEAM - a provider escalation team was set up that involves teleconferences for multi-disciplinary teams in relation to care homes
- PUBLIC HEALTH – set up a pathway for staff and their family who display symptoms to access testing
- EXCESS DEATHS -the Coroners CV-19 project involved taking calls from GPs regarding CV-19. It is a service needed around the clock so people would be on call on an 8 hour shift system.
- REGISTRATION SUPPORT - a hub has been created in Preston. A strict social distancing regime is in place at the HUB. Business support staff worked at the HUB to carry out the pre-registration 'screening' process for death registrations
- PPE EQUIPMENT - there was a need for members of staff to help with a range of activities associated with PPE. These include operating the phone line, taking deliveries, updating stock records, packing PPE packages for internal services and non-council care providers.
- ASSET MANAGEMENT - needed more resources on the Lancashire Volunteer Partnership to work on the helpdesk taking calls and signposting to the appropriate volunteer officer.
- WASTE RECYCLING CENTRES - members of staff were needed to help direct traffic and engage with customer (at a safe distance) when the Centre's reopened
- HIGHWAYS - maintaining safety critical works

Decision making arrangements

All formal meetings of the council including cabinet and committees were cancelled in response to the coronavirus situation.

Only business critical decisions were taken, and these have been taken under the relevant urgency procedures. Initially, we deferred all decisions currently listed on the forward plans for Cabinet and committees. For regulatory-type processes and decisions, we considered the appropriate mechanisms with officers responsible to ensure we meet our obligations.

To ensure that the council is able to make essential decisions quickly to respond in the current circumstances, the Leader agreed for officers to take all Executive (i.e. Cabinet) decisions should the need arise. However, the intention remained that Cabinet decisions are made by elected representatives wherever possible in line with the urgent business procedures and as such this new delegation was for genuinely emergency situations. All decisions made by officers under this specific delegation have been properly recorded.

With the agreement of the Chairman, the Full Council AGM in May was cancelled. All appointments made at the AGM last year, including the Chairman of the council and committee appointments, continued until the meeting of Full Council on 16 July 2020. Any questions or Notice of Motions already submitted were carried forward.

We hosted our first virtual Cabinet meeting in May and Development Control Committee in June with all participants dialling in. We are keeping this under review in line with any future changes to the wider guidance on social distancing / isolation.

Given that councillors have not been able to attend meetings for some time the "6 month rule" that requires them to attend at least one meeting in that time, was extended until October 2020.
Opposition groups have been regularly briefed by the Chief Executive and Director of Resources and Scrutiny committees have been discussing their future work programme in the context of the pandemic.

Managing risk

Our quarterly risk register was suspended and replaced by a twice weekly situation report that fed into both the Corporate Emergency Response Team (CERT) and CMT. The reports set out:

- Impacts on current service delivery
- Mitigation actions to minimise impacts
- Resource Issues – staffing and equipment shortfalls

The reports informed decision making in terms of resource allocation to help minimise the impact within Lancashire communities. The reports also set out actions taken to date and proposed actions. They also provided a forward view highlighting other issues. The reports are shared with multi-agency partners. The reports are now produced weekly. We have also carried out stress testing of our response and scenario planning setting out how we would operate with reduced staffing levels of 20%, 40% and 50%.

To provide flexibility to changing circumstances a number of our HR policies and procedures have been either temporarily amended or suspended. We have maintained constructive dialogue with the Trades Unions throughout the crisis.

All staff working from home have been asked to complete a home working risk assessment to ensure they have the correct set-up to work safely at home.

Health and wellbeing

Many staff are working so hard to look after others through this emergency, but it is also really important that they look after their own health and wellbeing. Keeping physically and mentally well is a challenge for us all. We have ensured that we have lots of useful information on the intranet about the help that we can offer, and guides to how people can help themselves. For colleagues not able to access the intranet, this information is also available on the staff section of our website, which anyone can access. All of our wellbeing information is updated regularly.

New areas of activity as part of the national response to coronavirus and any governance issues arising

There have also been challenges outside of our control, such as changing government advice which has had a knock-on effect to our response. One issue has been the availability of Personal Protective Equipment (PPE) to frontline staff, which has caused concerns. This was our top priority and we continue to do all we can to provide the relevant equipment to the frontline. We linked in to central government via numerous routes to lobby for quick deployment of necessary equipment to Lancashire.
Working on behalf of the Local Resilience Forum, we have bought significant supplies of PPE, taking delivery of several plane-loads of PPE from abroad. This has provided vital help to our care sector as the following statistics show:

- We have issued more than **1.8m** individual PPE items to our care sector and we received and fulfilled more than **1,500** individual requests for PPE
- At least **429** different Lancashire County Council providers have requested and received PPE
- Requests have come from both residential/nursing homes (60%) and domiciliary/community services (40%)

Excess Deaths - Temporary body storage facility

Like many other places in the country, we have to prepare for all contingencies as part of our response to the coronavirus pandemic. This meant we had to be prepared for the anticipated increase in deaths.

Therefore we built a temporary facility on BAE Systems' site at Warton with capacity to house 1,000 deceased to prepare for a potential increase in demand from the Lancashire County Council, Blackburn with Darwen and Blackpool areas. The facility was be built at pace over a week, and was ready for use in April. The administration and operation of the facility were comprehensively stress-tested before opening. Staff working at the facility were fully trained, and funeral directors have been fully briefed. At all times our aim is to treat the deceased with dignity and respect.

The temporary facility has not been used and has now be put into standby mode. The facility will remain at the site, but will not be operational unless it is needed in the event of a second peak.

Schools

The majority of schools (590) have stayed open to accept our vulnerable children and those of key workers, with thousands of pupils attending each day. All schools have maintained close contact with all parents and pupils. We have been in daily contact with schools and have been supporting them with issues that have arisen, as well as sharing all the latest guidance.

The government's ambition is to have schools accepting more pupils from 1 June in Reception, Year 1 and Year 6, with a goal of having all primary school children back in classes for a month before the summer break. Secondary schools will remain closed, although the government says it expects some one-to-one contact between teachers and pupils in Years 10 and 12.

These aspirations have caused significant concern both nationally and locally, given the stringent requirements that will be needed to ensure social distancing and the unique challenges this creates in a classroom environment. We have had productive and detailed discussions with our schools and representatives from the teaching unions. The ultimate decision (based on legal advice to date) about how many pupils it is safe to have in a school depends on context and geography and is therefore one for individual head teachers to make, in consultation with their governing body. However, on 27th May 2020 following careful consideration by our Director of Public Health, we advised schools not to reopen to more pupils from 1 June. This advice was issued because we did not believe that all of the five government tests were being met in the county. Following review, our Director of Public Health revised his guidance to schools about reopening to more pupils and encouraged them to take the decision to reopen to more pupils from 22 June, if they are ready to do so.

Some schools have also requested advice from the Director of Public Health regarding the use of PPE and potential criteria for needing to close in the future once cases re-emerge. Guidance on the use of PPE in schools has been published. PPE packs have been delivered to all primary schools and a plan is in place to do the same for all secondary schools. This is a one-off delivery at no charge. If further supplies are required, this will be chargeable.

Testing

Testing for coronavirus has been a hot national topic and there have been issues with people accessing tests and waiting for results. We have a clear guide on the intranet about who is eligible for testing and how they can get a test. This is also on the staff section of our website for those who can't access the internet. This guide is updated regularly with the latest advice and information, and we remain committed to working with the Local Resilience Forum to lobby government to ensure that Lancashire has enough tests, and the results come in a timely way.

Outbreak management plans are being developed in-line with the national move to Testing, Tracking & Tracing. Arrangements will include the setting up of local health boards, and addressing issues around staffing, training and capacity. Work is ongoing to produce a case management system similar to PHE system. Testing in care homes continues with support from St. John Ambulance and the Military.

Care home support package

At the outset of the CV-19 Coronavirus Pandemic in mid-March 2020 officers and members of the county council identified that support for the providers of adult social care services was an absolute key priority in securing the best possible health and wellbeing outcomes for our most vulnerable residents. A social care cell was introduced as part of LRF which the Executive Director of Adult Services & Health & Wellbeing chairs and we submitted a response to the Care Home support package that was developed in conjunction with NHS

Senior Officers in Adult Services immediately established a Human Aspects Cell (HAC) for Adults Services, which met twice weekly and reported daily into CMT meetings and the Corporate Emergency Response Teams (CERT). This enabled us to maintain a close oversight on the support being given to the care market and also to provide regular briefings to the county council's cabinet and leader of the opposition group. We are assured that the key focus on the care market was receiving laser like attention.

In addition, senior officers from Adult Services immediately established working groups and cells with key partners including health, district and unitary councils, which often met, and still meet, on a daily basis, in order to manage the vitally important hospital discharge process, provision of PPE for the sector, Infection Prevention Control, data collection, testing and tracing and workforce support.

Provider/Market Engagement

We recognised at the outset of the Covid 19 outbreak that effective engagement and communication with the care market in Lancashire was key to supporting them in their crucial role of securing the best health and wellbeing outcomes for our most vulnerable residents.

We immediately established a Provider Engagement Portal on the county council's website and set up weekly zoom webinars which all Lancashire providers are invited to attend and where we provide up to date guidance and information. Providers can submit questions which we answer via FAQs on the portal, which we update daily. We also send a weekly newsletter to all providers. We regularly attract around 250 providers on the webinar. We have received a considerable amount of positive feedback from our valued providers in Lancashire, and the questions and comments that we have received have ensured that, through ongoing dialogue, we have provided the clarity or support required to maintain a strong and stable care market during the current crisis and for the future. For example, we have developed a Financial Assistance scheme to support the current and future financial viability of our care market. It sets out the pathway that providers can follow to secure a speedy response from us in relation to financial issues that they may be facing including accessing additional funding for example in relation to additional staffing and PPE.

Data and Intelligence

Similarly, we recognised that 'live' information regarding a number of key aspects of our care market would be vital to enabling us to support our valuable providers in Lancashire. Our LRF colleagues supported that view and identified one of their first tasks would be to support us in developing a reliable method of capturing data and intelligence from all providers in Lancashire, and care home providers in particular.

We also recognised from the feedback that we were receiving from providers that they were being overwhelmed with requests for data and intelligence at a time when they needed to focus their efforts on caring for their residents and service users.

With that in mind a team of people set about developing a CV-19 tracker, with the main purpose of capturing daily intelligence in relation to the CV-

19 outbreak, and also with a mind to how that system could be rolled out to other Lancashire and South Cumbria authorities as part of an integrated way of working in 'business as usual'.

The LRF supported the tracker and wrote to all Lancashire providers and asked them to take a daily call from county council staff in order to provide information to support the ongoing management of the crisis. There is a tracker for residential services and another for community based services. NWADASS are looking at the system with a view to rolling out wider.

The trackers are now up and running with a daily return rate exceeding 80%. The tracker can now upload automatically on a daily basis to the NHS NECS tracker. This has enabled Lancashire to provide a high daily return rate into NECS. The tracker dashboards are available to our health and other partners.

We have enabled Blackburn with Darwen Council to provide information into our trackers and we are currently in the advanced stages of enabling Blackpool to input. South Cumbria and Sefton councils have also expressed interest. We can amend and adapt our tracker to capture and upload data into NECS as part of the NHS ongoing development of national data requirements.

We have produced a product manual that sets out the flow of information through the tracker and how it is then turned into management information for county council and health colleagues to turn in to action. The pathways are clearly set out in the manual which has been signed off by the LRF. Our NHS colleagues have greatly welcomed and supported the success of our CV-19 tracker for both local and national reporting purposes.

One of the main consequences of the intelligence that we can now collate on a daily basis from our providers is the ability for us to be able to respond at pace to any emerging crisis in one or more care settings. The LRF have supported the development of our Provider Failure Plan which sets out how we and our partners will respond in an emergency situation. This is then subsequently followed up by our newly formed Recovery Team who have developed a plan to support providers to return to more business as usual following a crisis situation.

Infection Prevention and Control

Our Infection Prevention and Control team have played a key role in supporting providers to maintain safe and healthy care services for Lancashire residents. The team have published regular guidance and advice to all providers including guidance documents and video training for the correct use of PPE.

The team is now playing a key role in gathering daily information in relation to outbreaks in homes and supporting care providers in minimising and preventing the further spread of the disease. Their work supports the Care Homes Admissions Policy statement that has recently been signed off by the LRF Social Care Cell.

The statement sets out how we will best maintain the status of 'cold' homes (ie those with no cases) and reduce the spread of the infection in 'hot' homes (those with cases). The policy is aimed at ensuring effective and safe hospital discharge and movement of residents between settings.

The next steps for the LRF to support this policy will be to establish 'step down' facilities to support effective infection prevention control in our care homes.

Testing in adult social care

The LRF Adult Social Care cell has focused on testing for residents and staff in our care homes. We understand the vital importance of testing everyone who lives or works in a care home setting in managing the spread of the infection and reducing the death rate.

The LRF has recently written to all care homes setting out the testing policy and procedure for care homes to follow for all of their staff and residents. The LRF have also approved the Testing Policy for care homes. The Testing policy is aligned to the Care Homes Admissions Policy.

To support the testing policy the LRF military planners have provided training to 70+ volunteers from St Johns and Army Veterans who will attend care homes who need support to undertake the test swabs.

In the event of significant numbers of care home staff needing to self-isolate as a consequence of a positive test result, the county council has secured an auxiliary workforce who can immediately step in to any care home needing additional staff.

Personal Protective Equipment and supply

The county council's procurement team have been at the forefront of working alongside the LRF to secure sufficient quantities of compliant PPE to support both the county council's care service staff and the wider market. A PPE pathway has been established which encourages care providers to secure their own PPE equipment via the national route, and to contact the county council in the event that other routes have failed.

The county council has continued to secure sufficient quantities and quality of the full range of PPE which meets national guidance (as it changes). We have received positive feedback from providers as the availability of PPE has been paramount in their continued efforts to contain the virus.

We have about 4 weeks supply of PPE and will continue to order and supply PPE to the market as required. We have also linked the supply of PPE to the financial support offer for providers.

Workforce Support

We recognised that maintaining the supply of a workforce for the care market in Lancashire was another key component to ensuring the stability of the market and saving lives. We quickly established a team of people to develop an auxiliary workforce who we have quickly trained using a variety of on line and care setting based methods. The details are contained within the template.

We have used a variety of advertising and recruitment methods to attract a care workforce, including local, regional and national campaigns. The availability is linked to our ability to quickly respond to one or more provider failures (see above).

Clinical Support

One of the pathways that we have established is in relation to nursing support and clinical/medical interventions that may be required in a care setting. We have worked with health colleagues to establish a pathway to access such support from any of the 5 Integrated Care Partnerships (ICPs) in

Lancashire. The pathways are in the final stages of sign off in the NHS and will be included in the Tracker Manual in due course.

Accommodation for key workers

We secured more than 2,500 rooms available at hotels and other facilities across the county for key workers where it is impractical or not possible for them to stay at home. This is a remarkable feat which we have led on which is for NHS staff and also our own key workers.

Safe discharge from the NHS to social care settings

Our adult social care teams work closely with the NHS and other partners to support timely patient discharge and respond to care needs. We have amended discharge pathways to meet the guidance requirements following agreement with our partners. All of our adult social care staff can access the new Hospital Discharge Service Requirements and our senior managers conducted a webinar to support their implementation. Any PPE requirements (and resulting provision and support, including information and advice) are discussed with providers at the point of discharge. We have established a number of pathways to allow for safe and effective discharge.

Returning professionals coming to work in social care

The county council is working with various professional bodies, including Social Work England and the Health and Care Professionals Council, to identify returning social work professionals who worked in the sector within the last few years. Despite issues with the quality of some of the information provided we are working with human resource professionals and looking at other options to get a clearer picture of how many social workers may potentially be recruited from this group.

Test & Trace System

The government has launched its Test and Trace system, which carries with it significant responsibilities for local government. Although formally launched, it is not yet fully operational and we await detail from central government on what their requirements of us will be for this important part of the country's ongoing plans to be able to live safely with the virus for the foreseeable future.

As an upper tier authority, we will have responsibility for the operational management of localised outbreaks and will be setting up an incident management hub working alongside the NHS and Public Health England. We are also working closely with our district colleagues, who have a key role to play, helping to understand high risk settings in their areas, supporting people isolating through hubs, and to engage with local business to ensure Covid-secure workplaces and settings.

We will be working collaboratively with our partners through the Local Resilience Forum to establish a consistent framework in Lancashire for testing, sharing data and intelligence, as well as disseminating Lancashire-wide messages to the public and key stakeholders.

An Incident Management Hub (IMH) has been established to support the Test, Track and Trace programme. It is up and running 7 days a week between 0800 and 2000, with a mailbox to triage cases. They will lead on L1 (more complex) cases, such as outbreaks in schools, care homes, homeless.

Community Safety & Domestic Abuse

Through the Community Safety Partnership we are working closely with our partners in the police, housing and health services and wider domestic abuse sector, to reassure people at risk and provide support and guidance.

Active travel

As Lancashire's businesses prepare to reopen, work is taking place across the county to ensure this can happen as safely as possible.

We have been working closely with our colleagues in the districts and business to help our residents take advantage of the easing of the lockdown, whilst still maintaining social distancing to prevent the spread of coronavirus.

One way we are doing this is through the creation of pop-up cycle lanes to encourage people to walk and cycle for regular journeys. The lanes in Lancaster and Preston city centres are to make it easier for people to cycle in these busy areas, and avoid using public transport if they can, to help prevent the spread of coronavirus and of course, protect themselves.

By making it easier for people to walk and cycle more, it also has the added benefit of assisting our physical and mental health.

We are also asking people to highlight public places where social distancing may currently be difficult and road space could temporarily be reallocated to give people more room.

Lancashire Outbreak Control Plan

In June 2020, Cabinet agreed to develop an Outbreak Control Plan. This work will be led by the Director of Public Health with NHS and district partners. The plan will address prevention, protection and response. There is a requirement for a Local Outbreak Engagement Board. Cabinet supported the proposal that the Health and Wellbeing Board be empowered to make the necessary arrangements.

The funding and logistical consequences of delivering the local government response

Pooled Fund Agreement

A pooled funding arrangement between the upper tier authorities in Lancashire to support key expenditure in response to the CV-19 pandemic was established. The Lancashire Resilience Forum identified a need for such an arrangement but, as the forum itself has no legal status, the proposed arrangements were considered to be an appropriate vehicle through which decisions on urgent key expenditure can be taken.

The councils are category 1 responders in the Civil Contingencies Act 2004 (the Act) and therefore are subject to the full range of duties conferred on them in relation to making arrangements for civil protection in an emergency. The councils are required under section 2(1) of the Act to cooperate with each other in connection with their duties in the local resilience area.

The Agreement will run until 31 August 2020 with an option to extend for up to a further 6 months. The Agreement does not prevent the councils incurring expenditure of their own outside of this arrangement. The county council is acting as accountable body for the pooled fund and made an initial contribution of £380,000. However, to date the total expenditure incurred by the LRF is in excess of £10m with county council contributing £6.6m. We have also established an agreement with the NHS in response to the funding flowing via the NHS to support hospital discharge.

Impact on our revenue budget

To date, we have received an additional £56M from central Government to help us meet the costs of responding to the pandemic. However, the current estimated cost to the council is in the region of £100m. These costs are not all attributable to direct expenditure on CV-19 related activity but include the savings we have not been able to deliver this year as a consequence of responding to the crisis and the estimated loss of income. This will leave a forecast gap of £44m.

Whist we anticipate that we will be able to deliver our budget this year, the ongoing uncertainties in relation to CV-19 related expenditure, future funding settlements and business rate retention means that it is increasingly difficult to forecast our income and expenditure in the short to medium term.

Care Provider Support

We have been providing significant support to our care sector throughout this emergency and as part of that support we have also been providing financial assistance to care providers, including care homes. Out of-around 760 care providers in our area, we are currently providing financial assistance to around 370 of them valued at £7.2m, however, some elements of this support will be overtaken by the new Infection Control Fund from central government over the coming weeks.

Community Fund

Through the LRF, we help set up a Lancashire community fund, which has been set up to help those most in need across the county. We have contributed £170,000 on behalf of ourselves and our district councils to the fund. The overall fund stands at £510,000 with a target of £1m.

Working in partnership with the National Emergencies Trust and Lancashire Resilience Forum, the Community Foundation for Lancashire is managing all donations received and will be ramping up their activity in the coming days. The fund is awarding grants to support community organisations providing vital services like foodbanks, delivery of food and care packages, telephone and online services offering friendship and support to help reduce isolation, emotional and mental health support and financial inclusion, support to access benefits and debt advice.

Assessment of the longer term disruption and consequences arising from the coronavirus pandemic.

It is very clear that this emergency is unlike any other we have ever faced, and as such the move towards recovery will be a different path to any we have seen before. But what we do know is that it will be complex and phased. Some of this will be led by central government, but we have to ensure that our voice is heard as we understand our people best.

As part of our preparations, the CMT is currently considering three key areas:

- What do we want to achieve and what will a full recovery look like? How can we balance the varying needs of our residents, businesses and communities to ensure we are supporting their financial, physical and mental wellbeing?
- What are the positives we have gained in this emergency that we want to secure? We have made significant changes to how we go about our business, and there has been some excellent innovation and practice that we need to capture and build on as we move back to whatever normality will look like in the future.
- What are the triggers for transition and recovery? How will we identify when to move into different phases of this journey? What will different services need to look at to indicate a change is needed? What warning signs will we need to be aware of to ensure we remain on track?

We have a key role to play in the coming months as we really begin to understand the implications of coronavirus and how it will affect the day-to-day lives of our citizens. We will be at the heart of building a stronger, healthier and more prosperous Lancashire for our residents and businesses.

Senior officers are already working on the implications and logistics associated with moving from crisis to recovery within their respective service areas. We have established CV-19 Corporate Recovery Group and a senior working group to examine all of the issues around safety in the workplace as we move towards opening our buildings and reopening our services. The group has produced guidance and risk assessments in consultation with staff and trade unions to ensure social distancing in the workplace and that we maintain a safe work environment. The group is looking at wider issues than just having workplaces reopened and is considering all aspects of safe working as we start to move towards the new normal. This includes support for routinely working remotely from home and other locations.

More recently, the Chief Executive & Director of Resources has become chair of the LRF as we have move out of crisis to recovery.

Conclusion

Overall, the County Council has the systems and processes in place to ensure it is responding appropriately to the coronavirus crisis and that good governance has been and continues to be maintained.

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 2020 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 178,150 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

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

https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf

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 seven core principles that should underpin the governance of each local authority namely:

- 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 Fund'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.

This statement sets out both how the Pension Fund has complied with its own Governance Statement and Lancashire County Council's Code of Corporate Governance.

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 2020.

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 clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Local Pension Board.

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

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling three year Strategic Plan and for monitoring the 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 four dimensions of the running of a pension fund. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against Investment Strategy are taken 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.

The administration service is undertaken by LPP. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPP.

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.

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. 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, meets the needs of the Fund in terms of effective delivery of the Investment Strategy. 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 the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk

Towards the end of the financial year a global pandemic of the Coronavirus known as Covid-19 has taken place. This presents a major risk to the Fund. Therefore, the Fund has developed a risk register solely dedicated to Covid-19 which covers the main functions of the Fund namely:

- Administration;
- Funding;
- Investment;
- Governance;
- Member communications.

Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed or reduced. The risk register is regularly reported to the Pension Fund Committee and the Pension Board.

Fulfilling the core functions of an Audit Committee.

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

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

The various LGPS Regulations, covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

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 by either the Fund's or LPP's custodian. LPP investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

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.

Assurance provided by internal audit

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by LPP's own internal audit service.

A short programme of work has been completed in respect of the county council's responsibilities. These covered:

- The council's oversight of Local Pensions Partnership Limited;
- Collection of employee and employer contributions;
- Accounting for the Pension Fund through the council's general ledger.

All audits gave substantial assurance that the relevant controls are adequately designed and effectively operated.

In addition the Head of Internal Audit seeks to obtain and understand the assurance provided by LPP's own internal auditors Deloitte. During 2019/20 Deloitte has completed and reported four audits under its three-year risk-based audit plan, two of which relate to LPP's own operation rather than its work in administering the Fund or investing on its behalf. Because the scope of audit work on LPP's activities and the information available about it are both restricted, the council can take only limited assurance over LPP's work. The relevant internal audit work undertaken related to covenant reporting and the 'senior manager and certification regime' (relating to compliance with FSA regulation), on both of which Deloitte provide the assurance that the controls were effective with scope for improvement.

Whistle blowing and receiving and investigating complaints from the public

The Fund participates in the National Fraud Initiative, and actively investigates all data matches found as a result of this process. The results of this work are reported to the Audit, Risk and Governance Committee.

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk 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.

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (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 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 transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a 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. 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.

Review of Effectiveness.

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2019/20 were:

- The triennial valuation of the Fund;
- To monitor the administration service as changes continue to be made within LPP;
- To review the cost of LPP and estimated savings made;
- To revise the Funding Strategy Statement as necessary.

Actions Planned for 2020/21

The following specific actions are proposed for during 2020/21:

- Monitor the impact of Covid19 with the continued development and monitoring of a separate risk register;
- Review the governance arrangements of the Fund in light of the expected Good Governance Report from the Scheme Advisory Board;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPP including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken on employer risk and implement any identified changes.

Conclusion

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the fund.

Signed

E Pope	*N Kissock*
County Councillor Eddie Pope Chair of the Pension Fund Committee	Neil Kissock Director of Finance Lancashire County Council

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, 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 and the Group Cash Flow Statement and all notes to the financial statements, including the technical annex and the significant accounting policies. The notes to the financial statements include the explanatory notes to the Financial Statements, the Technical Annex and explanatory notes to the Group Accounts. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive and Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 3 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the Authority and group financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority 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. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects 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 criterion 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 2020.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

Report on other legal and regulatory requirements - 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 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter 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 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Paul Dossett

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London
5 March 2021

Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive and Director of Resources’ use of the going concern basis of accounting in the preparation of the pension fund’s financial statements is not appropriate; or
- the Chief Executive and Director of Resources has not disclosed in the pension fund’s financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund’s financial statements are authorised for issue.

In our evaluation of the Chief Executive and Director of Resources’ conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund’s property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. Valuations of pooled and directly held property valuations have been reported on the basis of material valuation uncertainty. This was therefore disclosed in the audited accounts for the pooled property investments and the valuation reports of the pension fund’s directly held property investments. Our opinion is not modified in respect of this matter.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report, other than the pension fund’s financial statements, our auditor’s report thereon and our auditor’s report on the Authority’s financial statements. Our opinion on the pension fund’s financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund’s financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund’s financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority 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. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Paul Dossett

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London
5 March 2021

Glossary of terms and contact information

Borwick Hall

A

Accounting policies

The rules and practices applied by the council that determine how the transactions and other events are reflected in the 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 or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor has significant influence.

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.

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) and International Public Sector Accounting Standards (IPSAS). 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

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

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.

Floating rate note

A bond with a variable interest rate. These bonds typically have coupons renewable every three months and pay according to a set calculation derived from the interest set for each quarter.

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 substance 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.

J

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.

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 accounts to provide for the repayment of borrowing associated with capital expenditure.

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 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, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

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.

S

Subsidiary

A subsidiary is a company that is controlled by a holding or parent company.

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 and businesses in the county understand all of the services that we provide and how 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:

Corporate Finance
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ