# CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY

# STATEMENT OF ACCOUNTS

# 2014/15

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# EXPLANATORY FOREWORD

**Background**

Under the Police Reform and Social Responsibility Act (PRSRA) 2011, Police and Crime Commissioners (PCC) and Chief Constables (CC) are deemed to be separate entities (Corporations Sole) and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 which means that they are both required to produce accounts which are subject to audit.

The primary function of the PCC is to secure the maintenance of an efficient and effective police force in Lancashire and to hold the CC to account for the exercise of operational policing duties under the Police Act 1996.

The CC is, in technical terms, a 100% subsidiary of the PCC and in accounting terms this means that, although the CC is required to produce accounts in his own right, his accounts will also be consolidated with those of the PCC to form a third set of "PCC Group" accounts. The PCC/PCC Group accounts can be found at the following link:

http://www.lancashire-pcc.gov.uk/Document-Library/PCC-Statement-of-Accounts-14-15-Final.pdf

Under the PRSRA all PCCs were required to undertake a Stage 2 transfer of staff, assets, liabilities and land transferred previously from the Police Authority to the PCC at Stage 1. The Stage 2 transfer took place in April 2014 under which all Police Officers and staff, except those within the immediate Office of the PCC, were transferred to the CC. Both organisations retain use of a single bank account and all assets, liabilities and income are under the control of the PCC with the exception of liabilities and unusable reserves held in relation to staff and police officers now formally employed by the CC. All contracts signed by the organisation are under the name of the PCC.

A new framework of governance arrangements has been provided to manage the organisation following the Stage 2 transfer and is available at the following link:

http://www.lancashire-pcc.gov.uk/Transparency/Policies-and-Procedures/Policies-and-Procedures.aspx

The governance framework reinforces the PCCs position in control of the budget whereby the CC has a budget delegated to him by the PCC against which performance is monitored and reported to the PCC throughout the year.

**The Financial Statements of the Police and Crime Commissioner and Chief Constable**

The Accounts and Audit (England) Regulations 2011 require authorities to follow "proper practices in relation to accounts" when preparing the accounts. The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code), which is based on International Financial Reporting Standards (IFRS) constitutes a "proper accounting practice" in England and Wales under the terms of Section 21 (2) of the local Government Act 2003. The 2014/15 Statement of Accounts is prepared in accordance with the Code and the Service Reporting Code of Practice 2014/15.

The accounts reflect the current legislative framework as well as the local arrangements operating in practice.

A comprehensive income and expenditure statement (CIES) and balance sheet have been prepared for the CC to reflect the day to day direction and control that the CC exercises over Police Officers, Police Staff and PCSOs along with the running costs required to deliver a policing service in line with the Police and Crime Plan.

The CC's CIES reflects the gross cost of policing; it recognises no income other than the funding received from the PCC. All operating income, as with grants and contributions, is recognised in the first instance in the PCC's CIES. As the CC has no resources with which to fulfil his delegated responsibilities the figures in the CIES represents the PCC's resources consumed at the request of the CC to undertake day-to-day policing. The PCC resources consumed at the request of the CC are met in full in the CC's CIES by the PCC in the form of Intra-Group Funding. The deficit on provision of services remaining in the CC CIES represents technical adjustments that are reversed out in the movement in reserves statement (MIRS).

The CC is not responsible for the acquisition, disposal or maintenance of assets, however the CC does make use of assets in the discharge of policing duties. Details of assets utilised as well as information on other categories of assets and liabilities can be found in the 2014/15 PCC and Group Statement of Accounts. Whilst the CC does not own any long-term assets he does recognise in his balance sheet assets and liabilities relating to police officers and police staff under the direction and control of the CC. Short term employee-related creditors are matched either by a short-term debtor with the PCC (to reflect his ultimate responsibility for all assets and liabilities) or, in the case of short term accumulated absences, funded by an unusable reserve.

The net assets of the CC (assets less liabilities) are matched by unusable reserves held by the CC.

The accounting arrangements between the PCC and CC are detailed more fully in the accounting policies.

**Contents of the Statement of Accounts**

The statement gives the reader an overall impression of the finances of the CC for the financial year ended on 31 March 2015 (referred to as 2014/15).

The various sections contained within the consolidated financial statements are:

**Movement in Reserves Statement -** This statement shows the movement in the year on the different reserves held by the CC. As all usable reserves are retained by the PCC, these reserves are unusable and relate to pensions and short term employee benefits (accumulated absences).

**Comprehensive Income and Expenditure Statement -** This statement shows the accounting cost in the year of the CC providing services in accordance with generally accepted accounting practices, rather than the amount to be funded ultimately from taxation. The PCC raises taxation to cover expenditure in accordance with regulations and uses this income to provide intra-group funding to the CC. The accounting costs and those costs ultimately funded by taxation may be different. The taxation position is shown in the movement in reserves statement.

**Balance Sheet–** This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the CC.

**Cash Flow Statement–** The cash flow statement shows the changes in cash and cash equivalents of the CC during the reporting period. However, under the terms of the funding agreement between the PCC and the CC, all payments are made and income received by the PCC with no cash transactions taking place in the name of the CC. The statement therefore shows how the surplus/deficit on the provision of services recorded in the CIES of the CC is reconciled to show a zero cash balance by adjusting for transactions where there is no movement of cash.

**Auditor's Report** – This sets out the opinion of the CC's external auditor on whether the accounts present a true and fair view of the financial position and operations of the CC for 2014/15

**Annual Governance Statement** – This is a statement by the CC and his Chief Finance Officer (CFO) on governance issues, and provides assurances on the systems of control which are maintained and on the way he conducts his business.

In addition to these financial statements, the annual accounts include information on the Police Officer Pension Fund, which is administered by the CC, providing statements for pension fund income and expenditure, assets and liabilities.

For a full picture of the costs of policing in Lancashire, from a reader's perspective, the PCC Group Accounts are the most useful as they contain all the transactions of the PCC and CC and disregard any technical adjustments between the individual sets of accounts. A link to these Statements has been included above.

## Financial performance of the Chief Constable

The PCC sets both the revenue budget and the capital programme and he allocates resources to the CC to provide an efficient and effective policing service to the people of Lancashire. To assist the CC in managing the resources allocated, both the revenue budget and capital programme are devolved to officers within the Constabulary, who are nearer to the point of policing delivery and therefore can ultimately influence costs.

Effectively the revenue budget is managed by Divisional Commanders and Heads of Departments but overseen by the relevant chief officer (Deputy Chief Constable, Assistant Chief Constable and Director of Resources) responsible for that functional area.

The Capital Programme which primarily covers approved Strategies for ICT, Accommodation and Vehicle Replacement is managed by the Heads of those Departments.

The continuing austerity period had a significant impact in Lancashire in 2014/15 resulting in the CC having to identify savings of some £16.9m resulting in an overall workforce reduction of 385 posts.

## 2014/15 Revenue Budget and Outturn

The PCC set an initial overall budget of £266.024m for 2014/15 of which £254.289m was allocated to the CC. In addition, rules for Devolved Financial Management (DFM) allow the

CC to carry forward balances from the previous year to mitigate against unforeseen budgeted cost pressures. Accordingly at the 1 April 2014 some £2.631m was available in 2014/15, in addition to the allocated budget from the PCC of £254.289m. During the year only £0.401m of the balances brought forward were used in year with £2.230m remaining unutilised at 31 March 2015.

The following table provides a summary of spend, by ACPO responsibility area, compared to the revised budget for 2014/15 of £254.690m.

| **Responsibility Area** | **Revised Budget** | **Actual Spend** | **Variance** |
|---|---|---|---|
| | | | **-(Underspend) /** |
| | | | **Overspend** |
| | **£m** | **£m** | **£m** |
| ACC Territorial Operations | 148.058 | 143.809 | (4.249) |
| ACC Specialist Operations | 54.134 | 54.059 | (0.075) |
| Director of Resources | 27.347 | 26.079 | (1.268) |
| Deputy Chief Constable | 8.054 | 7.742 | (0.312) |
| | | | |
| **Sub Total Chief Constables DFM** | **237.593** | **231.689** | **(5.904)** |
| | | | |
| Non DFM | 17.097 | 14.574 | (2.523) |
| | | | |
| **Total Resources Consumed on Behalf of PCC** | **254.690** | **246.263** | **(8.427)** |

The year-end position is a total underspend of £8.4m which is attributable to savings arising from vacancies and turnover in both police officers and police staff as well as the continuing “spend less” approach to non-pay budgets which has been the case for a number of years. Budget holders are fully aware of the financial pressures the Constabulary continually faces and play their part by scrutinising spend to ensure only those costs that are operationally necessary are incurred.

Some savings in 2014/15 related to the early delivery of savings planned in 2015/16 but these were offset by costs of implementing change i.e. redundancy, which the PCC agreed would be supported from the transitional reserve. The overall cost met from the transitional reserve in 2014/15 to meet the non-recurring cost of change implementation was £1.891m.

The medium term financial strategy (MTFS) identifies the “funding gap” between resources into the Constabulary and spending requirements over a number of forward years which has resulted in close management of all vacant posts in 2014/15 in order to ensure that as the Constabulary redesigns its service delivery it has sufficient posts to disestablish to close the “gap”. The Constabulary did recruit officers in the latter part of 2014/15 into some of the vacant posts to ensure adequate numbers were maintained and will continue to do so in 2015/16. The recruitment of officers in the latter part of the year meant that some posts remained vacant for a considerable period of time in 2014/15 with in - year savings resulting.

**<u>Capital Funding and Outturn 2014/15</u>**

The PCC initially approved a capital investment programme for 2014/15 of £15.262m and during the year approved new proposals from the CC as well as additional slippage on schemes delayed from 2013/14 which increased the final programme to £17.246m.

The capital programme continued to reflect the strategic requirements agreed between the PCC and CC to invest in ICT, the estate and vehicle infrastructure. The investment reflects a combination of ensuring that a robust infrastructure is in place as required for an emergency 24/7 service, and investment aimed at providing more effective and efficient service delivery.

The following table summarises the position on the capital programme for 2014/15.

| | **Programme Value** | **Actual Spend** | **Slippage** | **Variance** |
|---|---|---|---|---|
| | | | | **(Underspend)/** |
| | | | | **Overspend** |
| | **£m** | **£m** | **£m** | **£m** |
| IT Strategy | 8.281 | 5.419 | 2.740 | (0.122) |
| Accommodation Strategy | 3.050 | 0.491 | 2.575 | 0.016 |
| Vehicle Replacement | 3.294 | 2.063 | 1.231 | 0.000 |
| Other Schemes | 2.621 | 1.065 | 1.417 | (0.139) |
| | | | | |
| Total | 17.246 | 9.038 | 7.963 | (0.245) |

Regular reports were provided by the CC to the PCC which highlighted, at an early stage, those schemes that were at risk of not progressing in year or would be delayed resulting in a lower level of expenditure in year than originally anticipated. Most were due to contractual negotiations being finalised.

The actual spend in year of £9m still enabled a number of important investments, particularly around ICT, to be undertaken in respect of the infrastructure supporting front line officers, the introduction of body worn video facilities, improved digital engagement with the public of Lancashire, mobile working to increase visibility as well as the introduction of a system to deliver DNA test results much quicker with an improvement in the efficiency of investigations. The latter was supported by grant from the Home Office Innovation Fund.

**Reserves**

The usable reserves of the Group are held by the PCC and are available for the CC to utilise in the performance of his duties after consultation and approval of the PCC.

**Pension Liabilities**

The pensions' liabilities shown on the CC balance sheet reflect the underlying commitment that the CC has in the long term to pay retirement benefits. Although recognition of these liabilities has a considerable impact on the CC's net worth, statutory arrangements for funding the deficit mean that the financial position of the CC remains healthy.

At 31 March 2015 the net pensions' liability of the CC, calculated by the actuary, is £3,059m (an increase of £412m over the previous year’s figure of £2,647m). The net liability is split between the Local Government Pension Scheme (£122m) and the Police Pension Schemes

(£2,937m). The police schemes are unfunded, ie no investments or other assets exist to offset future liabilities.

Other elements affecting the change in liability are shown in detail in Note 13 to the accounts.

**Police Pension Account**

A police pension account was set up on 1 April 2006 to administer both of the police pension schemes (the 1987 scheme and the 2006 scheme). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2014/15 follow the main statements.

Benefits payable are funded by contributions from employees and employers and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from the Police General Fund, which, under current arrangements, is financed by a top-up grant from the Home Office received by the PCC. The amount of additional contribution required from the PCC in 2014/15 was £42.8m.

**Financial Outlook**

The Government austerity measures have already seen in excess of £63m identified savings from the PCC budget over the period 2011/12 to 2017/18 and, at the time the budget for 2015/16 was agreed and set, around £20m still had to be identified between 2016/17 and 2018/19. In the period 2011/12 to 2015/16 the savings required have resulted in a loss of some 1,205 officers, staff and PCSO posts within the Constabulary or 20% of the workforce.

Announcements from the recently elected Conservative government indicate that the austerity period will continue until 2020. It is expected that the next comprehensive spending review announcement will be in the autumn, covering a four year period 2016/17 to 2019/20.

The Medium Term Financial Strategy reflects the continuation of reductions in government funding for policing and continues to be updated to ensure both the PCC and CC can meet the financial challenge.

Whilst there has been considerable success in delivering the financial strategy and savings to date, the considerable budget reductions that are forecast for future years will be difficult to deliver. Extending the existing forecast from 2018/19 to 2020/21 has already identified further additional savings of around £20m being required, which is on top of the additional £20m identified over the next 2 financial years.

Savings of this magnitude will require a different approach to policing in the county and the PCC and CC will be working closely together to maintain an efficient and effective policing service for Lancashire.

There still remains considerable debate around the funding formula for distributing Home Office funding to individual Forces and the need to safeguard the viability of forces that may lose grant through a revised distribution model during a period of austerity.

In respect of capital expenditure, considerable investment has been identified over the next five years to deliver the key strategies for ICT, estates and vehicle replacement and provide “enablers” to deliver transformational change in working practices and meet demands with a shrinking workforce. New technologies and infrastructure will provide the key to a different way of working whilst making the Constabulary accessible to the people of Lancashire. Accommodation requirements to ensure buildings are fit for purpose in the west of the county are included within the capital investment requirements over the next few years.

Regular reports will continue to be provided throughout the year to the PCC by the CC on the financial position of the Constabulary.

IAN L COSH
Director of Resources and Chief
Constable's Chief Finance Officer

24 June 2015

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Chief Constable of Lancashire Constabulary's Responsibilities

The Chief Constable is required to:

- make arrangements for the proper administration of the financial affairs of Lancashire Constabulary and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that officer is the Chief Financial Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

I approve these Statements of Accounts for the year-ending 31 March 2015

STEVE FINNIGAN CBE QPM
Chief Constable of Lancashire Constabulary
30 September 2015

### The Chief Financial Officer's Responsibilities

The Chief Constable's Chief Finance Officer, the Director of Resources, is responsible for the preparation of the Statement of Accounts of the Chief Constable in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Director of Resources 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 Director of Resources has also:

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

I certify that this Statement of Accounts is that upon which the auditor should enter a certificate and an opinion. It presents a true and fair view of the financial position of the Chief Constable of Lancashire Constabulary and his transactions as at 31 March 2015 and for the year then ended.

IAN L COSH MA, CPFA
Director of Resources and the Chief Constable's Chief Finance Officer
30 September 2015

# MOVEMENT IN RESERVES STATEMENT 2013/14 and 2014/15

This statement shows the movement in the 2013/14 and 2014/15 financial years on the different reserves held by the CC. At present, the only transactions shown in this statement relate to the Pensions Reserve and the Accumulated Absences Reserve (reflecting movements relating to police officers and police staff under the direction and control of the CC). All other reserves are managed by the PCC. The Deficit on the Provision of Services line shows the true economic cost of providing the CC's services

| | General Fund Balance £000 | Total Usable Reserves £000 | Pensions Reserve £000 | Accumulated Absences Reserve £000 | Total Unusable Reserves £000 | Total Reserves £000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2013** | **-** | **-** | **(2,671,182)** | **(6,929)** | **(2,678,111)** | **(2,678,111)** |
| 2013/14 Deficit on the provision of services on an accounting basis (restated) | (107,448) | (107,448) | - | - | - | (107,448) |
| Pensions re-measurement losses | - | - | 133,050 | - | 133,050 | 133,050 |
| **Total 2013/14 Comprehensive Income & (Expenditure) -restated** | **(107,448)** | **(107,448)** | **133,050** | **-** | **133,050** | **25,602** |
| **Adjs between accounting basis & funding basis under regulations –restated:** | | | | | | |
| Reversal of IAS19 pensions charges made to the CIES | 184,641 | 184,641 | (184,641) | - | (184,641) | - |
| Actual employers pension contributions paid | (75,826) | (75,826) | 75,826 | - | 75,826 | - |
| Difference in employee benefits charged to CI ES between accounting and funding basis | (1,367) | (1,367) | - | 1,367 | 1,367 | - |
| **Total Adjustments** | **107,448** | **107,448** | **(108,815)** | **1,367** | **(107,448)** | **-** |
| **Balance at 31 March 2014** | **-** | **-** | **(2,646,947)** | **(5,562)** | **(2,652,509)** | **(2,652,509)** |
| 2014/15 Deficit on the provision of services on an accounting basis | (91,571) | (91,571) | - | - | - | (91,571) |
| Pensions re-measurement losses | - | - | (321,047) | - | (321,047) | (321,047) |
| **Total 2014/15 Comprehensive Income & (Expenditure)** | **(91,571)** | **(91,571)** | **(321,047)** | **-** | **(321,047)** | **(412,618)** |
| **Adjs between accounting basis & funding basis under regulations:** | | | | | | |
| Reversal of IAS19 pensions charges made to the CIES | 175,398 | 175,398 | (175,398) | - | (175,398) | - |
| Actual employers pension contributions paid | (83,900) | (83,900) | 83,900 | - | 83,900 | - |
| Difference in employee benefits charged to CIES between accounting and funding basis | 73 | 73 | | (73) | (73) | - |
| **Total Adjustments** | **91,571** | **91,571** | **(91,498)** | **(73)** | **(91,571)** | **-** |
| **Balance at 31 March 2015** | **-** | **-** | **(3,059,492)** | **(5,635)** | **(3,065,127)** | **(3,065,127)** |

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of services provided by the CC using the resources of the PCC, in accordance with generally accepted accounting practices.

| 2013/14 Net Exp £000 | | Notes | 2014/15 Gross Exp £000 | Gross Inc £000 | Net Exp £000 |
|---|---|---|---|---|---|
| **137,596** | Local Policing | | 126,572 | - | **126,572** |
| **23,354** | Dealing with the Public | | 25,026 | - | **25,026** |
| **22,353** | Criminal Justice | | 21,195 | - | **21,195** |
| **16,621** | Road Policing | | 14,689 | - | **14,689** |
| **19,889** | Specialist Operations | | 16,404 | - | **16,404** |
| **18,066** | Intelligence | | 16,045 | - | **16,045** |
| **57,294** | Specialist Investigation | | 55,579 | - | **55,579** |
| **10,911** | Investigative Support | | 10,412 | - | **10,412** |
| **10,507** | National Policing | | 11,294 | - | **11,294** |
| **22** | Corporate and Democratic Core | | 22 | - | **22** |
| **1,063** | Non-Distributed Costs | | 891 | - | **891** |
| **(326,088)** | Funding received by CC from PCC | | - | (323,839) | **(323,839)** |
| **(8,412)** | **Net Cost of Services** | | **298,129** | **(323,839)** | **(25,710)** |
| **115,860** | Net Interest on Defined Benefit Liability | | | | **117,281** |
| **107,448** | **Deficit on Provision of Services** | | | | **91,571** |
| **(133,050)** | Re-measurements of pension assets/liabilities | | | | **321,047** |
| **(133,050)** | **Other Comprehensive (Income) & Expenditure** | | | | **321,047** |
| **(25,602)** | **Total Comprehensive (Income) & Expenditure** | | | | **412,618** |

# BALANCE SHEET

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the CC. The net assets (assets less liabilities) are matched by the reserves held by the CC. The reserves of the CC are not able to be used to provide services.

| 31 March 2014 | | Notes | 31 March 2015 |
|---|---|---|---|
| **£000** | | | **£000** |
| - | Short Term Debtors –Intragroup Debtor | | 6,076 |
| **-** | **Current Assets** | | **6,076** |
| (5,562) | Short Term Creditors | 9 | (11,711) |
| **(5,562)** | **Current Liabilities** | | **(11,711)** |
| (2,646,947) | Pensions Liability | 13 | (3,059,492) |
| **(2,646,947)** | **Long Term Liabilities** | | **(3,059,492)** |
| **(2,652,509)** | **Net Assets** | | **(3,065,127)** |
| (2,646,947) | Pensions Reserve | 6 | (3,059,492) |
| (5,562) | Accumulated Absences Reserve | 6 | (5,635) |
| **(2,652,509)** | **Total Unusable Reserves** | | **(3,065,127)** |

# CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the CC during the reporting period. Under the funding arrangement between the PCC and the CC the CC does not engage in investment and financing activities therefore all cash flows are classified as operating activities.

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| 107,448 | Net (surplus)/deficit on the provision of services | 91,571 |
| (107,448) | Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 11) | (91,571) |
| **-** | **Net Cash Flows from Operating Activities** | **-** |

# NOTES TO THE ACCOUNTS - Index

# 1. STATEMENT OF ACCOUNTING POLICIES

## i. General

The Statement of Accounts summarises the CC's transactions for the 2014/15 financial year and the position at the year-end 31 March 2015. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Accounts and Audit Regulations 2011 and the Service Reporting Code of Practice for Local Authorities 2014/15 (SeRCOP).

Notes relating to specific items in the financial statements include corresponding accounting policies. The accounting policies below relate to policies with no accompanying note.

## ii. Cost Recognition

The PCC pays for all expenditure including salaries of police officers, police community support officers and police staff. There is no transfer of real cash between the PCC and CC and the latter does not have a bank account into which monies can be received or paid from. Costs are recognised in the CC's Accounts to reflect the PCC's resources consumed in the direction and control of day-to-day policing at the request of the CC. The Accounts also reflect the CC's utilisation and consumption of PCC owned assets in the delivery of policing with a fair value charge being included that is equivalent to depreciation charges of property, plant and equipment, amortisation of intangible assets, and impairment from obsolescence or physical damage.

## iii. Accruals of Income and Expenditure

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

Supplies are recorded as expenditure when they are consumed.

Expenses in respect of services received (including services supplied by police officers, police staff and police community support officers) are recorded as expenditure when the services are received rather than when payments are made.

## iv. Working Capital

The PCC has the responsibility for managing financial relationships with third parties and has legal responsibility for discharging the contractual terms and conditions of suppliers. All payments are made and income received by the PCC, with no cash transactions taking place in the name of the CC.

## v. Exceptional Items

When items of income and expenditure are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the CC's performance.

## vi. VAT

All payments are made by the PCC and all income received by the PCC, with VAT reclaims being made by the PCC under the PCC Group VAT registration arrangements. Expenditure recorded in the CC's CIES excludes any amounts relating to VAT.

**vii. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used i.e. the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core –these are predominantly the costs of the PCC and are therefore contained in the PCC's CIES to reflect the PCC's status as a democratic organisation. In addition, there are costs incurred by the CC which meet the definition ie External Audit Fees

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CC's CIES as part of Cost of Services.

## 2. Critical judgements in applying accounting policies

Critical judgements for the PCC Group have been made by the PCC. These judgements can be seen in Note 2 to the PCC/PCC Group Statement of Accounts. The critical judgements that impact on the CC are:

- There is a high degree of uncertainty about future levels of funding for local government and police and crime commissioners. However, the PCC has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the PCC might be impaired as a result of a need to close facilities and reduce levels of service provision.

- Civilian employees under the direction and control of both the PCC and the CC are members of the Local Government Pension Scheme. Integral to the move to Stage 2 transition was the creation of two employers (PCC and CC) and the allocation of staff resources to each employer. For the purpose of compliance with IAS19 the actuaries were required to split existing pensions' liabilities between employers. The methods used to split these liabilities required use of approximation techniques. These methods have been discussed with the actuary and have been deemed to be reasonable given the materiality of the PCC element (just under 1% of the liabilities of the Group). The position of each employer will be reviewed in more detail at the next full actuarial valuation which will impact on the 2016/17 accounts.

- There is currently a degree of uncertainty around the level of payments required to be made to police officers who retired between 1 December 2001 and 30 November 2006 as a result of a Pension Ombudsman decision in May 2015. At this point in time it is not possible to produce a reliable estimate of the value of the payments that are expected to be made in 2015/16. As a consequence provision has not been made in the 2014/15 accounts for this liability but a contingent liability has been disclosed. Further details about this issue can be found in notes 5 and 17 of these accounts.

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

The following amendments have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2015 but not yet adopted by the Code.

- IFRS 13 *Fair Value Measurement*
- IFRIC 21 *Levies*
- *Annual Improvements to IFRSs 2011-13 Cycle*

The issues included in the Annual Improvements to IFRSs 2011 – 2013 cycle are:

- IFRS 1: Meaning of effective IFRSs;

- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception); and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.

The impact of these revised standards has been considered and is not expected to have any material impact on the accounts of the CC.

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

The statement of accounts contains estimated figures that are based on assumptions made by the PCC Group 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 CC balance sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pensions Liability | Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the PCC Group with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 13 is a sensitivity analysis that looks at the impact on net pensions' deficit of each of the significant actuarial assumptions. For instance, a 1% reduction in the discount rate assumption would result in an increase in the pension liability of the CC of around £580m. However, the assumptions interact in complex ways. During 2014/15, the CC's actuaries advised that the net pensions' liability had increased by £534m as a result of changes in financial assumptions. However, this included a reduction in discount rate of 1.3% (estimated increase in liability of £752m) along with reductions in assumptions re inflation, salaries and pensions of 0.4% which act to reduce the liability overall. |

5. **Events after the Balance Sheet date**

Accounting Policy

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

those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events;

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

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

The statement of accounts was authorised for issue by the CC's CFO on 30 September 2015. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

A contingent liability has been included in the accounts to reflect a recent determination by the Pension Ombudsman in relation to commutation factors applied by the Government Actuaries Department (GAD). The determination will mean that in 2015/16 the CC will need to make additional payments to police pensioners who retired between December 2001 and November 2006. It should be noted that the additional pension payments required to be made will be subsequently reimbursed by the PCC and ultimately by the Home Office through the pension top up grant. More detail can be found in note 17.

## 6. Unusable Reserves

Accounting Policy

Certain reserves are kept to manage the accounting processes for retirement and employee benefits and they do not represent usable resources for the PCC; these reserves are explained in the relevant policies below.

| | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| Pensions Reserve | (3,059,492) | (2,646,947) |
| Accumulated Absences Account | (5,635) | (5,562) |
| **Total Unusable Reserves** | **(3,065,127)** | **(2,652,509)** |

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in accordance with statutory provisions. The CC accounts for post-employment benefits in the CIES 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 employer's contributions are made to the pension funds or any pensions for which the CC is directly responsible are eventually paid. The negative balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| **Balance at 1 April** | **(2,646,947)** | **(2,671,182)** |
| Re-measurements of the net defined benefit (liability)/ asset | (321,047) | 133,050 |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | (175,398) | (184,641) |
| Employer's pensions contribution and direct payments to pensioners payable in the year | 83,900 | 75,826 |
| **Balance at 31 March** | **(3,059,492)** | **(2,646,947)** |

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Police General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement and police officers lieu time 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.

| | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| **Balance at 1 April** | **(5,562)** | **(6,929)** |
| Settlement or cancellation made at the end of the preceding year | 5,562 | 6,929 |
| Amounts accrued at the end of the current year | (5,635) | (5,562) |
| 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 | (73) | 1,367 |
| **Balance at 31 March** | **(5,635)** | **(5,562)** |

## 7. Officers' Remuneration

Accounting Policy Short term Employee Benefits

***Benefits payable during employment***

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

***Termination Benefits***

Termination benefits are amounts payable to police staff, including PCSOs as a result of a decision by the CC, to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged to the CIES at the earlier of when the PCC can no longer withdraw the offer of those benefits or when the CC recognises costs for a restructuring.

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

The remuneration paid to the senior officers of the Constabulary is as follows:

**Senior Officers and Relevant Police Officers 2014-15**

| Post Holder Information (Post title only) | Salary (including allowances) | Bonuses | Expense Allowances | Benefits in Kind | Total Remuneration excl. pension contribs | Pension Contribs. | Total Remuneration |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| Chief Constable -S Finnigan | 161,526 | - | - | 4,574 | **166,100** | - | **166,100** |
| Deputy Chief Constable | 129,562 | - | - | 5,782 | **135,344** | 30,669 | **166,013** |
| Assistant Chief Constable-Territorial Divs. & Criminal Justice | 98,075 | - | - | 6,156 | **104,231** | 23,049 | **127,280** |
| Assistant Chief Constable-Specialist Ops. | 100,093 | - | - | 2,691 | **102,784** | 23,049 | **125,833** |
| Director of Resources | 95,245 | - | - | 8,469 | **103,714** | 10,953 | **114,667** |

**Senior Officers and Relevant Police Officers 2013-14**

| Post Holder Information (Post title only) | Notes | Salary (including allowances) | Bonuses | Expense Allowances | Benefits in Kind | Total Remuneration excl. pension contribs | Pension Contribs. | Total Remuneration |
|---|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ | £ |
| Chief Constable -S Finnigan | | 160,236 | - | - | 6,787 | **167,023** | - | **167,023** |
| Deputy Chief Constable (A) | Note 1 | 117,328 | | | 5,429 | **122,757** | 27,008 | **149,765** |
| Deputy Chief Constable (B) | Note 1 | 14,186 | | | 586 | **14,772** | 3,357 | **18,129** |
| Assistant Chief Constable-Territorial Divs. & Criminal | | 97,131 | - | - | 7,431 | **104,562** | 22,821 | **127,383** |
| Assistant Chief Constable-Specialist Ops. (C) | Note 2 | 97,213 | | | 6,442 | **103,655** | 22,916 | **126,571** |
| Assistant Chief Constable-Specialist Ops. (D) | Note 2 | 8,093 | | 587 | - | **8,680** | 1,910 | **10,590** |
| Assistant Chief Constable-People | Note 3 | 51,954 | - | - | 3,603 | **55,557** | 12,227 | **67,784** |
| Director of Resources | | 94,301 | - | - | 9,018 | **103,319** | 14,900 | **118,219** |

Note 1 Post covered by two officers over the year: 1st April 2013 - 19th February 2014 (A) and 20th February 2014 - 31st March 2014 (B).
Note 2 Post covered by two officers over the year: 1st April 2013 - 31st January 2014 (C) and 1st February - 31st March 2014 (D).
Note 3 Post covered by one officer until 2nd October 2013-post subsequently disestablished.

The CC employed an estimated 4,880 full time equivalents during 2014/15 (4,930 in 2013/14). In addition to the senior and relevant officers outlined in the note above, the following employees received remuneration of greater than £50,000 for the year (excluding employer's pension contributions):-

| | **2014/15** | | | 2013/14 | | |
|---|---|---|---|---|---|---|
| | **Police Officers** | **Police Staff** | **Total** | Police Officers | Police Staff | Total |
| £170,000 - £174,999 | - | 1 | **1** | - | - | - |
| £100,000 - £104,999 | - | - | **-** | - | 1 | 1 |
| £95,000 - £99,999 | - | 1 | **1** | 1 | 1 | 2 |
| £90,000 - £94,999 | - | - | **-** | 1 | - | 1 |
| £85,000 - £89,999 | 7 | - | **7** | 6 | 1 | 7 |
| £80,000 - £84,999 | 2 | 1 | **3** | 6 | 1 | 7 |
| £75,000 - £79,999 | 7 | 1 | **8** | 6 | 1 | 7 |
| £70,000 - £74,999 | 4 | - | **4** | 4 | 1 | 5 |
| £65,000 - £69,999 | 9 | 4 | **13** | 8 | 2 | 10 |
| £60,000 - £64,999 | 10 | 1 | **11** | 12 | 4 | 16 |
| £55,000 - £59,999 | 87 | 8 | **95** | 93 | 3 | 96 |
| £50,000 - £54,999 | 112 | 18 | **130** | 115 | 15 | 130 |
| Total | 238 | 35 | **273** | 252 | 30 | 282 |

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Customs & Excise on form P11D and redundancy payments paid in the year. It does not include employers' pension contributions.
Senior Officers posts that are included in the Officers Remuneration note have been excluded.

The table above includes a number of police staff who appear only as a consequence of a one-off redundancy payment. The numbers and banding affected are shown below:

| | **2014/15** | **2013/14** |
|---|---|---|
| £170,000 - £174,999* | 1 | - |
| £100,000 - £104,999 | - | 1 |
| £95,000 - £99,999 | 1 | 1 |
| £85,000 - £89,999 | - | 1 |
| £75,000 - £79,999 | 1 | 1 |
| £65,000 - £69,999 | 3 | 1 |
| £60,000 - £64,999 | 1 | - |
| £55,000 - £59,999 | 5 | - |
| £50,000 - £54,999 | 8 | 2 |
| Total | 20 | 7 |

* In this instance, without the amount of the redundancy payment, the employee would still be included in the bandings note within the banding £65,000 -£69,999.

**Exit packages**

The numbers of exit packages with total cost per band and total cost of the compulsory redundancy and other departures are set out in the table below. It should be noted that the exit package costs shown in the table reflect the total cost to the organisation including, where appropriate, cost of pension enhancements:

| **Bandings** | **Number of Compulsory Redundancies** | | **Number of other departures agreed** | | **Total cost of exit packages in each band** | |
|---|---|---|---|---|---|---|
| | **2014/15** | **2013/14** | **2014/15** | **2013/14** | **2014/15** | **2013/14** |
| | | | | | **£** | **£** |
| £0-£20,000 | 5 | 14 | 17 | 34 | 184,194 | 586,147 |
| £20,001-£40,000 | 8 | 11 | 16 | 28 | 743,303 | 1,036,479 |
| £40,001-£60,000 | 4 | 2 | 6 | 21 | 484,411 | 1,135,995 |
| £60,001-£150,000 | 2 | 2 | 2 | 5 | 476,479 | 531,444 |
| **Total** | **19** | **29** | **41** | **88** | **1,888,387** | **3,290,065** |

8. **PCC Funding of the Chief Constable**

Accounting Policy

The PCC's funding of CC's expenditure takes the form of "Intragroup funding" and is shown as income in the CC's CIES and expenditure in the PCC's CIES. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC. The CC is, in effect, consuming the resources of the PCC but, for the purpose of reflecting the arrangement the transactions is reported as such. The accruals concept applies equally to the Intragroup Funding in that revenue is funded upon recognition on the understanding that the PCC has ultimate responsibility for working capital balances.

Funding for PCC resources consumed at the request of the CC represents the funding of the in-year costs recognised in the CC CIES and is calculated as follows:

| 2013/14 (Re-stated) £000 | | 2014/15 £000 |
|---|---|---|
| 433,536 | Provision of services deficit in CC CIES prior to PCC funding | 415,410 |
| (184,641) | Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve | (175,398) |
| 75,826 | Replace with actual employer contribution funded by PCC | 83,900 |
| 1,367 | Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve | (73) |
| 326,088 | **PCC funding for PCC resources consumed at the request of the CC** | **323,839** |
| | Consisting of: | |
| 12,846 | Fair value adjustment for CC consumption of PCC property & equipment | 12,644 |
| 313,242 | Other resources | 311,195 |
| 326,088 | **Total PCC resources consumed at the request of the CC** | **323,839** |

**Note:** The fair value adjustment to reflect the CC's use of PCC property & equipment is broken down as follows:

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| 4,953 | Buildings | 4,808 |
| 6,915 | Vehicles, Plant and Equipment | 6,582 |
| 978 | Intangible Assets | 1,254 |
| **12,846** | **Net Expenditure** | **12,644** |

9. **Creditors**

| 31 March 2014 £000 | At 31 March | 31 March 2015 £000 |
|---|---|---|
| | Creditors comprise: | |
| - | Central Government Bodies | 3,772 |
| 5,562 | Other Entities and Individuals –Accumulated Absences | 5,635 |
| - | -Other employment-related creditors | 2,304 |
| **5,562** | **TOTAL** | **11,711** |

## 10. Provisions

Accounting Policy

Provisions are the responsibility of the PCC and the level of required provisions is determined by the PCC, in consultation with the CC. However the annual revenue charges for provisions are reflected in the CC's CIES to reflect the true cost of delivering the policing service. The contributions are as follows:

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| 1,491 | Insurances | 2,809 |
| 253 | Carbon Reduction | (234) |
| **1,744** | | **2,575** |

Full details of what is covered by the provisions and the total provisions held by the PCC can be found in the PCC/PCC Group Statement of Accounts

11. **Cash Flow Statement -Adjustments to Net (Surplus)/Deficit on the provision of services for non-cash movement**

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| - | Net increase in revenue debtors | 6,076 |
| 1,367 | Net (increase)reduction in revenue creditors | (6,149) |
| (108,815) | Pension liability | (91,498) |
| **(107,448)** | **Total** | **(91,571)** |

12. **Related Parties**

The PCC Group (PCC and CC) is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group 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 Group.

Central government has effective control over the general operations of the Group: it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Details of transactions with government departments are set out in the PCC/PCC Group Statement of Accounts.

The PCC has direct control over the Group's finances, including responsibility for funding of all pensions' liabilities, and is responsible for setting the Police and Crime Plan. The CC retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

A survey of the related party interests of the CC and members of his senior management team and their immediate family members was carried out in preparing the statement of accounts. No material related party interests were disclosed.

**Jointly Controlled Operations/Collaboration**

Accounting Policy

The PCC Group is party to a number of collaborations (both regional and national). In all instances the Group's accounts reflect their share of income, expenditure and cash flows arising from the structure of the arrangement. As the PCC receives all income and funding, any income receivable from the structure of the arrangement will be credited to the CIES of the PCC. As the Comprehensive Income and Expenditure Statement of the CC contains the expenditure arising from these collaborations the PCC credits the CC with an equivalent amount through the intra group funding.

CIPFA Guidance on Accounting for Collaboration has been considered in determining the nature of the relationships and, as most of the North West regional arrangements have joint control through a strategic management board and a general arrangement document has been agreed and signed by all PCC's and CCs in the region, it is considered that most are correctly classified as joint operations.

Some arrangements are of a collaborative nature but are classified as third party payments. Others involve officers from individual forces undertaking tasks and roles on a regional basis but funded by a lead force from grants made by the Home Office or are self -funded from fees and charges.

The following groups the arrangements into:

Collaboration – Joint Operations
Collaboration – Third party payments
Collaboration – Grant/Self-funded.

**Collaboration -Joint Operations**

Titan was established in April 2009 bringing together the six regional police forces in collaboration to tackle serious and organised crime across the North West. It encompasses the work of a number of teams with Merseyside as the lead force. The accounts reflect Lancashire's share of the income and expenditure of the various arrangements as follows:

| 2013/14 PCC Group Net Exp | | **2014/15** | | |
|---|---|---|---|---|
| | | **Grant Inc (PCC CIES)** | **Exp (CC CIES)** | **PCC Group Net Exp** |
| £000 | | **£000** | **£000** | **£000** |
| - | Regional Asset Recovery Team | (236) | 236 | - |
| 665 | Regional Crime Unit | (101) | 779 | 678 |
| 91 | Regional Intelligence Unit | (108) | 183 | 75 |
| - | Confidential Unit | (16) | 250 | 234 |
| - | Technical Surveillance unit | (228) | 506 | 278 |
| 191 | Protected Persons Service | - | 353 | 353 |
| - | Prisoner Intelligence | (70) | 210 | 140 |
| - | Operational Security Officer | (19) | 20 | 1 |
| 947 | | **(778)** | **2,537** | **1,759** |

The following joint operations have Cheshire as lead force:

| 2013/14 PCC Group Net Exp | | **2014/15** | | |
|---|---|---|---|---|
| | | **Inc (PCC CIES)** | **Exp (CC CIES)** | **PCC Group Net Exp** |
| £000 | | **£000** | **£000** | **£000** |
| 189 | Joint Underwater Search Unit | (21) | 175 | 154 |
| 262 | Motorways and ANPR | - | 278 | 278 |
| 55 | Firearms Collaboration | (1) | 49 | 48 |
| 506 | | **(22)** | **502** | **480** |

The Learning and Development collaboration is a joint operation between Lancashire and Cumbria. Lancashire's share of the costs is £2.532m (£2.456m in 2013/14)

Assets and Liabilities

Debtors and creditors in respect of the above arrangements have remained in the balance sheets of the lead forces by mutual agreement of all forces involved, on the basis of materiality.

In 2013/14 the PCC for Merseyside purchased and refurbished a building to accommodate the Regional Crime Unit, the Regional Intelligence Unit and the Regional Asset Recovery Team. The cost of this asset has been fully funded by a capital grant received from the Home Office. The premises have been purchased in the name of and are owned by the PCC for Merseyside and the current value (£1.9m) of this asset is included within the balance sheet of the PCC for Merseyside.. If the regional arrangements are ever terminated the Home Office has the option of recovering the grant received to fund the building. If this option was not exercised, the sale proceeds would be divided between the participating forces (Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales).

**Collaboration – Third Party Payments**

The only significant one of these arrangements is the payment made towards the National Police Air Service (NPAS) which was £1.256m in 2014/15 (£1.280m in 2013/14).

**Collaboration – Grant/Self-funding**

In a small number of collaboration arrangements Lancashire provided seconded officers to support the arrangements and was fully reimbursed by Greater Manchester Police (GMP). GMP were lead force and received grant funding from the Home Office to cover all expenditure. All expenditure and income has been reflected in the Greater Manchester Police CIES with Lancashire's CIES adjusted to show no transactions.

## 13. Defined Benefit Post- Employment Benefits

Accounting Policies

Police officers and police staff have the option of belonging to one of three separate pension schemes:

- 1987 Police Pension Scheme for Police Officers;
- 2006 Police Pension Scheme for Police Officers;
- Local Government Pensions Scheme for Police Staff

There are unfunded arrangements for uniformed police officers. They are defined benefit pension arrangements which are governed by statute.

The Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS) applies to other employees. The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Public Services Pensions Act 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer’s contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2013, and at that date showed a funding level of 78% (assets of £5.0bn against accrued liabilities of about £6.4bn). The weighted average duration of the liabilities of the Fund as a whole is 18 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

All the schemes provide index linked defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group and determined by the individuals pensionable pay and pensionable service. Details of how the schemes operate can be found on the LCC's "Your Pension Service" website at the link below:

www.yourpensionservice.gov.uk

The Local Government Scheme and the Police Pension Schemes are accounted for as defined benefits, final salary schemes, as follows:

Local Government Scheme:

Police staff and PCSOs are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC funded an employer’s contribution of 11.5% during 2014/15 along with a cash contribution of £2.86m towards the deficit (15.8% employer's contribution 2013/14 with no separate cash contribution).

The liabilities of the Local Government Pension Scheme attributable to the staff employed by the CC are included in the balance sheet on an actuarial basis using the projected unit credit 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 discount rates which now vary according to the duration of the employer's liability, with an average of 3.4% (4.6% in 2013/14), based on the weighted average of “spot yields” on AA rated corporate bonds.

The assets of the Local Government Pension Fund attributable to the PCC Group are included in the balance sheet at their fair value:

- quoted securities: current bid price
- unquoted securities: professional estimate
- unitised securities: current bid price
- property: market value.

Police Officers:

The 1987 Police Pension Scheme is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations (PPR) 1987 (as amended) and related regulations that are made under the Police Pension Act 1976. During 2014/15 officers made contributions on a tiered basis up to a maximum 15.05% of pensionable pay.

The 2006 Police Pension Scheme, which started on 1 April 2006, is also a contributory occupational pension scheme, governed by the Police Pension Act 1976 (as amended by the Police Pensions Regulations 2006). During 2014/15 officers made contributions on a tiered basis up to a maximum 12.75% of pensionable pay.

A police pension account was set up on 1 April 2006 to administer both of the police pension schemes.

Both the 1987 scheme and the 2006 scheme provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group. The employers' contribution for each serving officer is common to both schemes (24.2% of pensionable pay); this is set nationally and is subject to review.

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating both pension schemes have been recognised in the CC balance sheet, as have entries in the CC CIES for movements in the asset/liability relating to the defined benefit schemes. Transfers into and out of the schemes, representing joining and leaving police officers are recorded on a cash basis in the Police Pension Account as a result of the time taken to finalise the sums involved. In accordance with the Police Reform and Social Responsibility Act 2011, the Police Pension Account is administered by the CC for Lancashire and is included in both the CC and PCC Group statements of accounts

The liabilities of both the 1987 and 2006 schemes are attributable to the CC are included in the balance sheet on an actuarial basis using the projected unit credit 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 projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.2% (4.5% in 2013/14), based on the weighted average of "spot yields" on AA rated corporate bonds.

Injury Awards:

Injury awards are paid to police officers under the Police (Injury Benefits) Regulations 2006 and entitlement is dependent on the salary, service and also degree of disablement of the member at the time the injury is incurred. Accordingly the actuaries have calculated the defined benefit obligation as at 31 March 2015 including allowances for the following:

- the actuarial value of the injury pensions that are currently in payment;

- advance provision for the part of the injury pensions that are accrued up to 31 March 2015 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987 and 2006 Schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the 2014/15 CIPFA Code of Practice Guidance Notes (Module 6, Para. B72) the assumption that such awards are "not usually subject to the same degree of uncertainty as the measurement of post-employment benefits" has been rebutted and injury awards are therefore accounted for, under IAS 19, in the same manner as the main police pension schemes. Liabilities are included on the CC balance sheet within the pensions, liabilities and shown separately in the notes to the accounts.

The change in the net pension liability has to be analysed into the following components:

Service cost, comprising:

**Current service cost:** represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is included within the service cost -allocated in the CIES across activity areas, in line with the CIPFA SeRCOP;

**Past service and curtailments costs:** these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;

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

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

**Re-measurements**, the components of which pass through the other comprehensive income and expenditure section of the CIES and are made up as follows:

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

Re-measurements (liabilities) –these are subdivided into:

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

Experience gains/losses on liabilities –as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations. Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In the case of the Police Pension scheme, this includes any contribution made by the PCC to meet the deficit on the Pension Fund.

In relation to retirement benefits, statutory provisions require the general fund balance to be ultimately charged with the amount payable by the PCC/PCC Group to the pension funds or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby 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.

**Governance and Risk Management:**

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

**<u>Lancashire County Pension Fund</u>**

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

**Funding the liabilities:**
Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2013, which showed a shortfall of assets against liabilities of £1.38 billion as at that date, equivalent to a funding level of 78%. The fund's employers are paying additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the CC's defined benefit obligation is 22 years, measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £8.2m contributions to the LGPS in 2015/16 in respect of the staff under the direction and control of the CC.

**Risks and Investment strategy:**
The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance

the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

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

**Other Price Risk:**
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

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

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

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

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

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

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

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

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

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

**Police Pension Schemes**

**Governance:**
These arrangements are managed by the employer, although this essentially involves administering the plan, including managing its cash flows.

**Funding the liabilities:**
Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 17 years in respect of the 1987 scheme and 31 years in respect of the 2006 scheme (injury awards have a duration of 18 years), measured on the actuarial assumptions used for IAS19 purposes.. The PCC Group anticipates to pay £75.4m contributions to the Police Schemes in 2015/16.

**Investment Risks:**
There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the arrangements for meeting part of the benefit outgo, which could increase the employer's contributions to them.

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

Transactions Relating to Post-Employment Benefits

We recognise the cost of post-employment/retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the employers' contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the general fund via the movement in reserves statement. The following transactions have been made during the year:

| | Local Government Pension Scheme | | Police Officer Pension Schemes | | Injury Awards | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Comprehensive Income and Expenditure Statement (CIES)** | | | | | | | | |
| **Cost of Services:** | | | | | | | | |
| **Service Cost comprising:** | | | | | | | | |
| • Current service cost | 7,894 | 10,433 | 46,898 | 54,490 | 2,434 | 2,796 | 57,226 | 67,719 |
| • Past service costs | 62 | 4 | - | - | - | - | 62 | 4 |
| • Curtailment costs | 650 | 873 | - | - | - | - | 650 | 873 |
| • Admin. expenses | 179 | 186 | - | - | - | - | 179 | 186 |
| **Financing and Investment Income and Expenditure*:*** | | | | | | | | |
| • Net Interest expense | 3,031 | 4,475 | 109,762 | 107,023 | 4,488 | 4,362 | 117,281 | 115,860 |
| **Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES** | **11,816** | **15,971** | **156,660** | **161,513** | **6,922** | **7,158** | **175,398** | **184,642** |
| **Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: Re-measurement of the net defined benefit liability, comprising:** | | | | | | | | |
| • Re-measurements (assets) | (17,453) | 1,695 | - | - | - | - | (17,453) | 1,695 |
| • Experience gains on Liabilities | - | (10,812) | (173,497) | - | (22,146) | - | (195,643) | (10,812) |
| • Actuarial losses arising on changes in demographic assumptions | - | 1,581 | - | 35,983 | - | 1,574 | - | 39,138 |
| • Actuarial (gains)/losses arising on changes in financial assumptions | 66,581 | (35,906) | 451,289 | (121,399) | 16,273 | (5,767) | 534,143 | (163,072) |
| **Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement** | **60,944** | **(27,471)** | **434,452** | **76,097** | **1,049** | **2,965** | **496,445** | **51,591** |
| **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 | (11,816) | (15,971) | (156,660) | (161,513) | (6,922) | (7,158) | (175,398) | (184,642) |
| **Actual amount charged against the General Fund Balance for pensions in the year:** | | | | | | | | |
| • Employers' contributions payable to scheme | 8,889 | 8,133 | 72,612 | 65,380 | - | - | 81,501 | 73,513 |
| • Retirement benefits paid to pensioners | | | | | 2,400 | 2,313 | 2,400 | 2,313 |

### Pensions Assets and Liabilities Recognised in the Balance Sheet

| | Local Government Pension Scheme | | Police Officer Pension Schemes | | Injury Awards | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31 Mar 2015 | 31 Mar 2014 | 31 Mar 2015 | 31 Mar 2014 | 31 Mar 2015 | 31 Mar 2014 | 31 Mar 2015 | 31 Mar 2014 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Present Value of the defined benefit obligation** | 368,455 | 285,920 | 2,837,295 | 2,475,455 | 99,567 | 100,918 | **3,305,317** | 2,862,293 |
| **Fair value of plan assets** | (245,825) | (215,346) | - | - | - | - | **(245,825)** | (215,346) |
| **Net liability arising from defined benefit obligation** | **122,630** | 70,574 | **2,837,295** | 2,475,455 | **99,567** | 100,918 | **3,059,492** | 2,646,947 |

The liabilities show the underlying commitments that the CC has in the long run to pay retirement benefits in respect of police officers and staff under his direction and control.

The total liability of £3,059.492m has a considerable impact on the net worth of the CC as recorded in the balance sheets, resulting in a net liability of £3,065.127m (including £5.635m for accumulated absences)..
However, statutory arrangements for funding the liability mean that the financial position remains healthy:

- The deficit on the Local Government Pensions scheme will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme actuary and as funded by the PCC.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

## CC share of Assets and Liabilities in Relation to Post-employment Benefits

### Reconciliation of the present value of the scheme liabilities:

| Funded Scheme –Local Govt Pension Scheme | 2014/15 | 2013/14 |
|---|---|---|
| | £000 | £000 |
| **1 April** | **285,920** | **309,860** |
| Current Service Costs | 7,894 | 10,433 |
| Interest on pensions liabilities | 13,022 | 13,508 |
| Contributions by scheme participants | 2,840 | 2,994 |
| Actuarial losses –changes in demographic assumptions | - | 1,581 |
| Actuarial (gains)/losses –changes in financial assumptions | 66,581 | (35,906) |
| Experience gains on liabilities | - | (10,812) |
| Benefits paid | (8,514) | (6,615) |
| Past Service/Curtailment Costs | 712 | 877 |
| **31 March** | **368,455** | **285,920** |

| Unfunded Liabilities | Police Pension Schemes | | Injury Benefits | |
|---|---|---|---|---|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| | £000 | £000 | £000 | £000 |
| **1 April** | **2,475,455** | **2,464,738** | **100,918** | **100,266** |
| Current Service Costs | 46,898 | 54,490 | 2,434 | 2,796 |
| Interest on pensions liabilities | 109,762 | 107,023 | 4,488 | 4,362 |
| Contributions by scheme participants | 14,943 | 14,783 | - | - |
| Experience gains on liabilities | (173,497) | - | (22,146) | - |
| Actuarial losses –changes in demographic assumptions | - | 35,983 | - | 1,574 |
| Actuarial (gains)/losses –changes in financial assumptions | 451,289 | (121,399) | 16,273 | (5,767) |
| Benefits paid | (87,555) | (80,163) | (2,400) | (2,313) |
| **31 March** | **2,837,295** | **2,475,455** | **99,567** | **100,918** |

### Reconciliation of the fair value of the scheme assets:

| Funded Scheme –Local Govt Pension Scheme | 2014/15 | 2013/14 |
|---|---|---|
| | £000 | £000 |
| **1 April** | **215,346** | **203,682** |
| Interest on plan assets | 9,991 | 9,033 |
| Admin Expenses | (179) | (186) |
| Employer Contributions | 8,889 | 8,133 |
| Contributions by scheme participants | 2,840 | 2,994 |
| Re-measurements (assets) | 17,453 | (1,695) |
| Benefits paid | (8,514) | (6,615) |
| **31 March** | **245,826** | **215,346** |

| Unfunded Schemes | Police Pension Schemes | | Injury Benefits | |
|---|---|---|---|---|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| | £000 | £000 | £000 | £000 |
| **1 April** | **-** | **-** | **-** | **-** |
| Employer Contributions | 72,612 | 65,380 | 2,400 | 2,313 |
| Contributions by scheme participants | 14,943 | 14,783 | - | - |
| Benefits paid | (87,555) | (80,163) | (2,400) | (2,313) |
| **31 March** | **-** | **-** | **-** | **-** |

**Local Government Pension Scheme assets comprised:**

| | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| **Cash and Cash Equivalents** | **11,459** | **3,739** |
| **Equity Instruments** | | |
| By Industry | | |
| Consumer | 27,229 | 27,699 |
| Manufacturing | 15,155 | 17,136 |
| Energy and Utilities | 5,507 | 8,731 |
| Financial Institutions | 14,593 | 15,878 |
| Health and Care | 8,370 | 9,708 |
| Information Technology | 13,923 | 14,288 |
| Miscellaneous | - | 585 |
| **Sub-Total Equity** | **84,777** | **94,025** |
| **Bonds** | | |
| By Sector | | |
| Corporate | 3,418 | 19,830 |
| Government | 7,730 | 6,597 |
| **Sub-Total Bonds** | **11,148** | **26,427** |
| **Property** | | |
| By Type | | |
| Retail | 10,015 | 8,096 |
| Commercial | 13,178 | 9,513 |
| **Sub-Total Property** | **23,193** | **17,609** |
| **Private Equity** | | |
| UK | 6,180 | 5,410 |
| Overseas | 8,754 | 5,912 |
| **Sub-Total Private Equity** | **14,934** | **11,322** |
| **Other Investment Funds** | | |
| Overseas Pooled Equity | 21,349 | 18,798 |
| Credit Funds | 63,454 | 30,565 |
| Infrastructure | 13,708 | 11,715 |
| UK Pooled Equity | - | 64 |
| Property | 1,804 | 1,082 |
| **Sub-Total Other Investment Funds** | **100,315** | **62,224** |
| **TOTAL ASSETS** | **245,826** | **215,346** |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels etc. The Police Schemes, Injury Benefits and the Local Government Pension Fund liabilities have been assessed by Mercer Resource Consulting Ltd, an independent firm of actuaries, estimates being based on the last full valuations of the schemes. The principal assumptions used by the actuary have been:

| | **Local Govt. Pension Scheme** | | |
|---|---|---|---|
| | **2014/15 PCC staff** | **2014/15 CC staff** | **2013/14** |
| Long-term expected rate of return on assets in the scheme: | | | |
| Equity investments | 6.5% | 6.5% | 7.0% |
| Government Bonds | 2.2% | 2.2% | 3.4% |
| Other Bonds | 2.9% | 2.9% | 4.3% |
| Property | 5.9% | 5.9% | 6.2% |
| Cash/Liquidity | 0.5% | 0.5% | 0.5% |
| Mortality assumptions: | | | |
| Longevity at 65 for current pensioners (LGPS): | | | |
| Men | 22.9 | 22.9 | 22.8 |
| Women | 25.4 | 25.4 | 25.3 |
| Longevity at 65 for future pensioners (LGPS): | | | |
| Men | 25.1 | 25.1 | 25.0 |
| Women | 27.8 | 27.8 | 27.7 |
| Rate of inflation: CPI | 2.0% | 2.1% | 2.4% |
| Rate of increase in salaries | 3.5% | 3.6% | 3.9% |
| Rate of increase in pensions | 2.0% | 2.1% | 2.4% |
| Rate for discounting scheme liabilities | 3.3% | 3.4% | 4.6% |

| | Police Officers 1987 Scheme | | Police Officers 2006 Scheme | | Injury Awards | |
|---|---|---|---|---|---|---|
| | **2014/15** | **2013/14** | **2014/15** | **2013/14** | **2014/15** | **2013/14** |
| Longevity at 60 for current pensioners: | | | | | | |
| Men | 28.1 | 28.0 | 28.1 | 27.8 | 25.5 | 25.4 |
| Women | 30.6 | 30.5 | 30.6 | 30.4 | 28.0 | 27.9 |
| Longevity at 60 for future pensioners: | | | | | | |
| Men | 30.6 | 30.4 | 30.6 | 30.3 | 27.9 | 27.8 |
| Women | 33.1 | 33.0 | 33.1 | 32.9 | 30.4 | 30.3 |
| Rate of inflation: CPI | 2.0% | 2.4% | 2.0% | 2.4% | 2.0% | 2.4% |
| Rate of increase in salaries | 3.5% | 3.9% | 3.5% | 3.9% | 3.5% | 3.9% |
| Rate of increase in pensions | 2.0% | 2.4% | 2.0% | 2.4% | 2.0% | 2.4% |
| Rate for discounting scheme liabilities | 3.2% | 4.5% | 3.2% | 4.5% | 3.2% | 4.5% |

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

Local Government Pension Scheme:

| | Impact on Defined benefit Obligation in the Scheme | |
|---|---|---|
| | **Increase in Assumption £000** | **Decrease in Assumption £000** |
| Longevity (increase or decrease in 1 year) | +6,889 | -6,889 |
| Rate of inflation (increase or decrease by 1%) | +81,970 | -81,970 |
| Rate for discounting scheme liabilities (increase or decrease by 1%) | -80,190 | +80,190 |
| Rate of increase in salaries (increase or decrease by 1%) | +27,380 | -27,380 |

Police Officer Pension Schemes and Injury Benefits:

| | Impact on the Defined Benefit Obligation in the Scheme | | | |
|---|---|---|---|---|
| | **Police Pension Schemes** | | **Injury Benefits** | |
| | **Increase in Assumption £000** | **Decrease in Assumption £000** | **Increase in Assumption £000** | **Decrease in Assumption £000** |
| Longevity (increase or decrease in 1 year) | +60,174 | -60,174 | +2,095 | -2,095 |
| Rate of inflation (increase or decrease by 1%) | +570,330 | -570,330 | +20,460 | -20,460 |
| Rate for discounting scheme liabilities (increase or decrease by 1% | -558,120 | +558,120 | -20,030 | +20,030 |
| Rate of increase in salaries (increase or decrease by 1%) | +144,350 | -144,350 | +9,920 | -9,920 |

## 14. Amounts Reported for Resource Allocation Decisions

The analysis of expenditure by service heading on the face of the CIES is that specified by the *Service Reporting Code of Practice.* However, decisions about resource allocations are taken by the CC on the basis of budget reports analysed across devolved and non-devolved areas, the devolved budgets being delegated to individual members of the Constabulary's Senior Management team. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made to reflect the use of the PCC's assets whereas the cost of service in the CIES reflects such a charge;
- The CC's delegated revenue budget includes an anticipated level of operational income. However, under the current legislative framework, all income is received by the PCC and, as such, is reported in the PCC's CIES;
- The cost of retirement benefits is based on actual employer's pension contributions rather than current service cost of benefits accrued in year;
- Approved contributions to/from the PCC's earmarked reserves are reported with income and expenditure across the CC's individual budget areas for monitoring purposes whereas these movements are not recorded anywhere in the CC's statement of accounts, they are recorded in the PCC's movement in reserves statement

**The net expenditure of the Chief Constable's principal areas recorded in the budget reports for the year is as follows:**
(Note: ACC = Assistant Chief Constable; DCC = Deputy Chief Constable)

| **2014/15** | **ACC Territorial Ops** | **ACC Specialist Ops.** | **DCC** | **Director of Resources** | **CC Other** | **Total** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| TOTAL INCOME | (2,543) | (1,273) | (1,071) | (7,084) | (10,311) | **(22,282)** |
| Employee Expenses | 140,066 | 47,283 | 6,957 | 12,169 | 21,699 | **228,174** |
| Other Service Expenses | 6,318 | 8,113 | 1,833 | 20,204 | 3,735 | **40,203** |
| TOTAL OPERATING EXPENSES | 146,384 | 55,396 | 8,790 | 32,373 | 25,434 | **268,377** |
| NET SERVICE EXPENDITURE | 143,841 | 54,123 | 7,719 | 25,289 | 15,123 | **246,095** |
| Contribs to/(from) reserves-reported in year | (32) | (64) | 23 | 790 | (548) | **169** |
| Contribs to/(from) reserves-agreed by PCC in Outturn Report | - | - | - | - | 8,026 | **8,026** |
| **NET EXPENDITURE REPORTED TO MANAGEMENT** | **143,809** | **54,059** | **7,742** | **26,079** | **22,601** | **254,290** |

| **2013/14** | **ACC Territorial Ops £000** | **ACC Specialist Ops. £000** | **ACC People £000** | **DCC £000** | **Director of Resources £000** | **CC Other £000** | **Total £000** |
|---|---|---|---|---|---|---|---|
| TOTAL INCOME | (2,771) | (1,686) | (1,091) | (65) | (5,040) | (12,149) | **(22,802)** |
| Employee Expenses | 135,841 | 60,755 | 6,473 | 3,185 | 11,892 | 17,020 | **235,166** |
| Other Service Expenses | 9,149 | 5,884 | 1,311 | 1,545 | 20,183 | 4,642 | **42,714** |
| TOTAL OPERATING EXPENSES | 144,990 | 66,639 | 7,784 | 4,730 | 32,075 | 21,662 | **277,880** |
| NET COST OF SERVICES | 142,219 | 64,953 | 6,693 | 4,665 | 27,035 | 9,513 | **255,078** |
| Contribs to/(from) reserves-reported in year | 2,536 | 2,013 | 625 | 31 | 939 | (759) | **5,385** |
| Contribs to/(from) reserves-agreed by PCC in Outturn Report | - | - | - | - | - | 4,305 | **4,305** |
| **NET EXPENDITURE REPORTED TO MANAGEMENT** | **144,755** | **66,966** | **7,318** | **4,696** | **27,974** | **13,059** | **264,768** |

**Reconciliation of expenditure reported to management to the Cost of Services in the Comprehensive Income & Expenditure Statement**

This reconciliation shows how the figures in the analysis of income & expenditure reported to management relate to the amounts included in the Comprehensive Income & Expenditure Statement.

| **2013/14 £000** | | **2014/15 £000** |
|---|---|---|
| 264,768 | Net expenditure in Service Analysis | **254,290** |
| (244,461) | Add amounts not reported to management | **(253,077)** |
| (51,130) | Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement | **(48,845)** |
| 22,411 | Income reported in PCC's Cost of Service but reported to CC Management within Constabulary net devolved budgets* | **21,922** |
| (8,412) | **NET COST OF SERVICE IN CIES** | **(25,710)** |

### Reconciliation to Chief Constable's Subjective Analysis

| 2014/15 | Service Analysis | Not Reported to Mgmt. | Not incl. in Cost of Service | Income reported in PCC and PCC Group CIES | Corporate Amounts | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **TOTAL INCOME** | **(22,282)** | **(323,839)** | **360** | **21,922** | **-** | **(323,839)** |
| Employee Expenses | 228,174 | 58,118 | (41,074) | - | | **245,218** |
| Other Service Expenses | 40,203 | - | 64 | - | | **40,267** |
| Charge for use of assets | - | 12,644 | - | - | | **12,644** |
| Pensions Interest Cost | - | - | - | - | **117,281** | **117,281** |
| **TOTAL OPERATING EXPENSES** | 268,377 | 70,762 | (41,010) | - | **117,281** | **415,410** |
| **DEFICIT ON PROVISION OF SERVICES** | **246,095** | **(253,077)** | **(40,650)** | **21,922** | **117,281** | **91,571** |
| **Adjustments Reported to Management , included in Movement in Reserves Statement:** | | | | | | |
| Contribs to/(from) reserves-reported in year | 169 | - | (169) | - | - | - |
| Contribs to/(from) reserves-agreed by PCC in Outturn Report | 8,026 | - | (8,026) | - | - | - |
| **Management reporting reconciliation** | **254,290** | **(253,077)** | **(48,845)** | **21,922** | **117,281** | **91,571** |

| **2013/14** | **Service Analysis** | **Not Reported to Mgmt.** | **Not incl. in Cost of Service** | **Income reported in PCC and PCC Group CIES** | **Corporate Amounts** | **Total** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **TOTAL INCOME** | **(22,802)** | **(326,088)** | **391** | **22,411** | | **(326,088)** |
| Employee Expenses | 235,166 | 68,781 | (41,794) | **-** | **-** | **262,153** |
| Other Service Expenses | 42,714 | - | (37) | **-** | **-** | **42,677** |
| Charge for use of assets | **-** | 12,846 | **-** | **-** | **-** | **12,846** |
| Pensions Interest Cost | **-** | - | **-** | **-** | **115,860** | **115,860** |
| **TOTAL OPERATING EXPENSES** | 277,880 | 81,627 | (41,831) | **-** | **115,860** | **433,536** |
| **DEFICIT ON PROVISION OF SERVICES** | **255,078** | **(244,461)** | **(41,440)** | **22,411** | **115,860** | **107,448** |
| **Adjustments Reported to Management , included in Movement in Reserves Statement:** | | | | | | |
| Contribs to/(from) reserves-reported in year | 5,385 | - | (5,385) | - | - | - |
| Contribs to/(from) reserves-agreed by PCC in Outturn Report | 4,305 | - | (4,305) | - | - | - |
| **Management reporting reconciliation** | **264,768** | **(244,461)** | **(51,130)** | **22,411** | **115,860** | **107,448** |

15. **Expenditure on Publicity**

The CC's CIES includes £0.477m (£0.693m in 2013/14) in respect of certain categories of publicity including communication and consulting with Lancashire residents; this information is published in accordance with section 5(1) of the Local Government Act 1986. The categories are:

| | 2014/15 | 2013/14 |
|---|---|---|
| | **£000** | **£000** |
| Publicity | 452 | 693 |
| Advertising -Recruitment | 23 | - |
| Advertising -Other | 2 | |
| | **477** | 693 |

16. **External Audit Costs**

In 2014/15 the following fees are included in the CC's CIES relating to external audit.

| | 2014/15 £000 | 2013/14 £000 |
|---|---|---|
| Fees payable to Grant Thornton with regard to external audit services carried out as appointed auditors. | 25 | 25 |
| Rebate received from the Audit Commission with regard to external audit services carried out by the appointed auditors. | (3) | (3) |
| **Total Costs** | **22** | **22** |

17. **Contingent Liabilities**

As the PCC funds all expenditure incurred by the CC and holds all reserves, the responsibility for disclosing contingent liabilities is his. However, the following contingent liability will impact on the future expenditure of the CC:

Police Officer Commutations:

In May 2015 the Pensions Ombudsman published his determination in a case concerning the lump sum paid to a firefighter on his retirement. The case also has relevance to many police officers who retired in the early 2000s. The commutation factors under the Fire and Police Schemes are reviewed from time to time in accordance with their governing legislation. These reviews take account of factors affecting the actuarial equivalent value, such as changes in the discount rate used to value the benefits and the future life expectancy of retirees. At the 1998 review, the Government Actuaries Department (GAD) had recommended that the commutation factors should be reviewed in three years' time. However, no review took place in 2001. The focus of the complaint was that GAD ought to have reviewed the commutation factors earlier than 2006 and that, had it done so, more beneficial terms would have applied giving him a higher cash sum on retirement or a higher residual pension for the same amount of lump sum. The determination found that "an opportunity to review the commutation factors was lost in 2001/2 and then again between 2002 and 2004".

The impact of the determination is that the CC will be required to apply the principles of the Pension Ombudsman's determination to police officers who retired from 1 December 2001 to 30 November 2006 and to make necessary additional lump sum payments and pension payments. Determination of the overall liability will require complex calculations for each individual who retired in the between 1 December 2001 and 30 November 2006. These calculations will be undertaken by the CC's pensions' administrator during 2015/16. Consequently it is currently not possible to calculate a reliable estimate of the value of these payments although a likely range of payments is between £5.6 million and £9.9 million. It is anticipated that these payments will be made during 2015/16 financial year and no adjustment has been made to the 2014/15 accounts; this has been treated as a contingent liability. As any deficit on the Police Pensions Account is funded by an additional contribution by the PCC there will be no impact on the finances of the CC. Furthermore the Home Office have indicated that any additional payments made by the PCC will be reimbursed through additional funding in the pension top up grant. This means that there will be a no impact on the overall finances of the PCC Group.

Holiday Pay:

The UK Employment Appeal Tribunal (EAT) has recently ruled under the Working Time Regulations (WTR) that non-guaranteed overtime should be factored in when calculating the amount of holiday pay that an employee is entitled to. Non-guaranteed overtime is overtime that the employee is contractually required to work, but which the employer doesn't promise to offer. Previously, employers have been paying holiday pay based on an employee's basic pay but now employers will have to take into account certain types of overtime, and potentially bonus payments and commission, when calculating holiday pay, rather than just considering basic pay.
There still remains uncertainty and challenge around this issue particularly concerning Police Officer Regulations being compatible with the Working Time Directive and further guidance is awaited nationally to ensure a consistent approach by forces. There is uncertainty around the elements of pay to be included in the calculation of holiday pay and therefore there still remains uncertainty over the value of the liability.

# POLICE PENSION ACCOUNT

The CC administers the Police Pension Fund Account (the Account) on behalf of the PCC, in accordance with the Police Reform and Social Responsibility Act 2011. Amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). During the year all payments and receipts are made to and from the Police Fund, which is held by the PCC. This statement shows the income and expenditure for the both the 1987 and the 2006 Police Pension Schemes. This statement does not form part of the Statement of Accounts for either the PCC or the CC but has been audited as a separate statement and is covered by the audit opinion on Page 47.

## POLICE PENSION ACCOUNT

| | **2014/15** | | | 2013/14 |
|---|---|---|---|---|
| | **1987 scheme £000** | **2006 scheme £000** | **Total £000** | Total £000 |
| **Contributions receivable** | | | | |
| Employer contributions at 24.2% of pensionable pay | (21,424) | (4,754) | **(26,178)** | (27,279) |
| Early Retirements | (3,680) | (65) | **(3,745)** | (2,704) |
| | **(25,104)** | **(4,819)** | **(29,923)** | (29,983) |
| Officer Contributions | (12,610) | (2,338) | **(14,948)** | (14,778) |
| **Total Contributions Receivable** | **(37,714)** | **(7,157)** | **(44,871)** | (44,761) |
| **Transfers In** | **(433)** | **(467)** | **(900)** | (524) |
| **Benefits Payable** | | | | |
| Pensions | 67,962 | 2 | **67,964** | 64,187 |
| Commutations and lump sum retirement benefits | 18,851 | 16 | **18,867** | 15,441 |
| Lump sum death benefits | 111 | - | **111** | 149 |
| Other –Pre '74 | | | | - |
| **Total Benefits Payable** | **86,924** | **18** | **86,942** | 79,777 |
| **Payments on Account of Leavers** | | | | |
| Transfer values out | 1,550 | 20 | **1,570** | 857 |
| Refund of contributions | - | 13 | **13** | - |
| Other | - | - | **-** | 49 |
| **Total Payments on Account of Leavers** | **1,550** | **33** | **1,583** | 906 |
| **Net amount payable/(receivable) for the year before top-up contribution from Police Fund** | **50,327** | **(7,573)** | **42,754** | 35,398 |
| Top-up contribution to/ (from) Police Fund. | **(50,327)** | **7,573** | **(42,754)** | (35,398) |
| **Net amount payable/(receivable)** | **-** | **-** | **-** | - |

## NET ASSET STATEMENT

| 31 March 2014 £000 | | 31 March 2015 £000 |
|---|---|---|
| - | April pensions paid in advance | - |
| - | Amounts owed (to)/from PCC's General Fund | - |
| **-** | **Net Assets** | **-** |

## NOTES TO THE FINANCIAL STATEMENT

### 1. Basis of preparation

The Police Pension Account combines the accounting transactions of two pension schemes; the 1987 Scheme and the 2006 Scheme.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2014/15. It summarise the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the income and expenditure account and balance sheets of the CC and the PCC Group.

Both pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from employees and employers (in this instance the PCC) and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from/to the Police General Fund, which is financed by top-up grant from the Home Office.

Membership at 31 March is as follows:

| | **1987** | | **2006** | | **Total** | |
|---|---|---|---|---|---|---|
| | **31 Mar 15** | 31 Mar 2014 | **31 Mar 2015** | 31 Mar 2014 | **31 Mar 2015** | 31 Mar 2014 |
| Active Members | 2,229 | 2,407 | 718 | 675 | **2,947** | **3,082** |
| Deferred | 518 | 515 | 79 | 63 | **597** | **578** |
| Current Pensioners (incl widows/depends.) | 4,100 | 4,029 | 2 | 1 | **4,102** | **4,030** |
| | **6,847** | **6,951** | **799** | **739** | **7,646** | **7,690** |

### 2. Accounting policies

**General**

The financial statements have been prepared on an accruals basis except for transfers to and from the account and contributions refunded, which are treated on a cash basis.

**Employers' Contributions**

The employers' contribution rate for both pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2014/15 was set at 24.2%.

**Employees' Contributions**

Police officer contributions are deducted from officer salaries. The contribution rates were increased over a three year period from 1 April 2012 to reflect the agreement reached between the Home Secretary and the Police Negotiating Board. Contribution rates range between 11% and 15.05% dependant on the range the police officer's salary falls into and whether the officer is a member of the 1987 or the 2006 schemes.

## 3. Net Asset Statement

The net asset statement does not include liability to pay pensions and other benefits after the 31 March 2015 These liabilities remain ultimately with the PCC Group and have been reflected in the CC and PCC Group balance sheets. Details of these liabilities can be found in Note 13 to the main statement of accounts.

Grant Thornton

## INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR LANCASHIRE CONSTABULARY

We have audited the financial statements of the Chief Constable for Lancashire Constabulary for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the Police Pension Account financial statements comprising the Police Pension Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the Chief Constable for Lancashire Constabulary, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable 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 Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Resources and auditor

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

### Scope of the audit of the financial statements

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable for Lancashire Constabulary as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**Opinion on other matters**

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

**Matters on which we report by exception**

We are required to report to you if:

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

We have nothing to report in these respects.

**Conclusion on the Chief Constable’s arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Chief Constable and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Chief Constable has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, the Chief Constable for Lancashire Constabulary put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Certificate**

We certify that we have completed the audit of the financial statements of the Chief Constable for Lancashire Constabulary in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Royal Liver Building
Liverpool
L3 1PS

30 September 2015

# Lancashire Constabulary Annual Governance Statement 2014 - 15

## Scope of Responsibility

Lancashire Constabulary is responsible for ensuring that its business is conducted in accordance with the relevant law and proper standards relating to financial management and corporate governance. It also has a statutory duty to secure value for money in the use of public funds.

The Chief Constable is responsible for operational policing matters, the direction and control of police personnel and for putting in place proper arrangements for the governance of the Constabulary, including the effective exercise of its functions and ensuring appropriate arrangements for the management of risk.

The Police and Crime Commissioner (PCC) for Lancashire is responsible for holding the Chief Constable to account for the exercise of those functions. This statement reports on the governance arrangements in place.

A joint Constabulary and OPCC 'Scheme of Governance' sets out both the broad legislative context and local regulatory framework, within which the Chief Constable and PCC will work to fulfil their statutory function of securing an efficient and effective police force. It also outlines how they will ensure robust and effective governance arrangements to support the exercise of those functions.

This statement explains how the Constabulary has complied with the governance framework, and also meets the statutory requirement for it to undertake an annual review of arrangements and publish findings in an Annual Governance Statement.

## Purpose of the Governance Framework

A framework of governance and internal control has been established, comprising the systems and processes, culture and values by which the Constabulary is directed and controlled, and the activity through which it accounts to and engages with communities. It enables the Constabulary to monitor achievement against the strategic objectives, agreed with the PCC and outlined in the Police and Crime Plan, to consider whether those objectives have delivered efficient, effective services and value for money.

The system of internal control is a significant part of that framework and is designed to provide reasonable (rather than absolute) assurance of the effectiveness of risk management protocols. It is based on a dynamic process designed to identify and evaluate the risks to achievement of the Constabulary's priorities, aims and objectives and to ensure that they are managed and mitigated in an efficient, effective and economical way.

The governance framework has been in place up to and including the year ending 31 March 2015 and up to the date of approval of the statement of accounts.

## The Governance Framework

The Chartered Institute for Public Finance and Accountancy (CIPFA) has identified the principles of good governance for public services; those specifically relating to local policing services are:

1. Focusing on the purpose of the PCC and the Constabulary and on outcomes for the community, and creating and implementing a vision for the local area.
2. Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting the values of the PCC and the Constabulary and demonstrating the values of good governance by upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of the workforce to be effective in their roles.
6. Engaging with community, partners and stakeholders to ensure robust public accountability.

**1. Focusing on the purpose of the PCC and the Constabulary and on outcomes for the community, and creating and implementing a vision for the local area.**

The Constabulary has established a clear mission, vision and values and determined its five strategic priorities[1], which outline the key focus of the force in ensuring that it is able to deliver the most efficient and effective policing service for the people of Lancashire.

Value for money is a strategic priority for the Constabulary and the financial context in which the Constabulary operates makes achieving value for money and delivering the necessary savings a critical objective for the force. HMIC have consistently found, in their Valuing the Police (VtP) Inspection programme, that the Constabulary is well prepared to deal with the challenges of the financial cuts. In the VtP4 Inspection of 2014, HMIC found that:

*"Lancashire Constabulary is on track to meet its financial challenge … and is planning now for further funding reductions and financial pressures in the future".*

*"HMIC was reassured by the level of detail that underpins Lancashire's saving plans and also by the leadership's ability and determination to make changes while fighting crime and keeping its communities safe.*

*There are innovative plans for working more closely across public services to manage demand better and to provide a more effective response. HMIC recognises the ambition of the force in this work, which could transform how services are provided and offer the opportunity to achieve savings in the future.*

The local policing priorities for the county, on which the Constabulary focuses each year, are determined by the PCC in consultation with the Constabulary, its partners, stakeholders and the communities of Lancashire. In addition, the Constabulary and PCC are required to maintain a regional and national policing capability, in compliance with the Home Office Strategic Policing Requirement.

The strategic and local policing priorities of the Constabulary and PCC are communicated to the public, partners and stakeholders via the Police and Crime Plan for Lancashire. The Plan is reviewed and updated annually, with outturn performance scrutinised at the year end.

Internally, the Constabulary Chief Officer team utilises the annual programme of 'roadshows', in addition to a range of internal media, to directly communicate its approach and priorities to the workforce.

The budget and medium term financial forecast (MTFF) are set by the PCC, with regular updates around budget monitoring and progress provided throughout the year. The Statement of Accounts will be approved by the PCC and Chief Constable in September 2015.

The Constabulary routinely surveys members of the community and victims of crime to assess levels of satisfaction and confidence with the service provided. Quality of service issues are identified and tracked, to allow remedial action to be taken where necessary. Complaints and Satisfaction and Confidence data are monitored as part of the core performance framework and are routinely reported to the PCC, through the Strategic Scrutiny Meeting and the joint PCC and Constabulary Audit Committee.

**2. Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles.**

The Police Reform and Social Responsibility Act 2011 (PRSR), the Strategic Policing Requirement and the national Policing Protocol Order outline the key roles and responsibilities of the Chief Constable and PCC.

The PCC and Chief Constable have approved a suite of documents, which set out the local governance arrangements. These include Standing Orders, the Financial Regulations and a Scheme of Governance (SOG).

The Chief Officer team of the Constabulary have specific areas of responsibility, including key elements of internal control, which are outlined within job descriptions and reviewed via annual appraisal. The Chief Constable's Chief Finance Officer (CFO) has implemented an internal scheme of responsibility, which outlines the financial responsibilities of relevant Constabulary officers.

The policing priorities agreed with the PCC form part of the Lancashire-wide community safety priorities, which are identified each year by the Lancashire Community Safety Partnership. The Lancashire County Community

[1] Neighbourhood Policing, Diversity, Quality, Value for Money and Protecting People

Safety Strategy Group (LCCSSG) was established to govern the pan-Lancashire approach to community safety and ensure a more co-ordinated effort; the Constabulary is a key partner within that group. There is also a regular series of meetings held with Lancashire local authority chief executives, at which information on joint priorities and common issues is shared.

Performance against priorities is tested through a robust framework, which ensures that the Chief Constable and PCC are kept informed about crime, resource and financial management performance. Performance information is monitored and scrutinised by Chief Officers and the PCC Executive at a range of forums, including the monthly Management Boards, at Constabulary Quarterly Performance Reviews and the quarterly Strategic Scrutiny Meeting, at which the PCC formally holds the Chief Constable to account. A record of the Strategic Scrutiny Meeting is published on the OPCC website.

The PCC also meets regularly with the Chief Officers of the Constabulary on a less formal basis, to receive updates and discuss issues around organisational and operational performance.

**3. Promoting the values of the PCC and the Constabulary and demonstrating the values of good governance by upholding high standards of conduct and behaviour.**

The CC's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the CIPFA Statement on 'The role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (July 2012)'. The CC's Chief Finance Officer is the Constabulary's professional advisor on financial matters.

The Constabulary has a robust complaints process, managed by the Professional Standards Department (PSD), which is responsible for the receipt, recording and investigation of public complaints and misconduct allegations. The PSD also has specific responsibilities to support the Independent Police Complaints Commission (IPCC) in discharging their statutory role.

The department routinely analyses complaints and misconduct data to identify emerging trends and lessons to be learned, which are disseminated to the workforce through a range of internal communications media.

Police officers and staff are subject to relevant codes of conduct and the standards of behaviour expected by the Constabulary, in line with its stated values and the College of Policing Code of Ethics. Discipline, grievance and conduct matters are governed by appropriate policies, including whistle blowing, and the Constabulary has a counter corruption strategy, which defines how it will manage corruption issues within the Force.

Professional standards matters are monitored by the Constabulary, which has an action plan to oversee the implementation of recommendations arising from HMIC inspections of integrity. The Constabulary has established processes for registering business interests and an electronic recording system for gifts and hospitality, which are routinely audited.

The Constabulary has introduced the new national Code of Ethics for policing as part of its established overall approach to values led behaviour, supported by the existing standards it has outlined in the code of conduct. There is an Integrity and Standards Board which governs and monitors integrity related issues; the PCC and Constabulary have also established an Ethics Panel, with a respected independent Chair, to examine ethical issues for both organisations. This will be supported by two newly established Ethics Groups within the Constabulary, based at tactical and strategic levels within the organisation, which will consider and advise on ethical dilemmas.

In the recent integrity inspection HMIC found that:

> *"The chief officer team consistently reinforces integrity issues and this is recognised by all members of the constabulary. Effective programmes of work, led personally by chief officers, promote continuing change".*

**4. Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.**

At the start of each financial year, the Constabulary and PCC agree a programme of internal and external audit work, which is reported back through the Audit Committee, responsible for enhancing public trust and confidence in the governance of the PCC and the Constabulary. It also assists the PCC in discharging his statutory responsibility for holding the Chief Constable to account. Minutes of the Audit Committee are published on the OPCC website.

The Constabulary is subject not only to internal and external audit procedures, but also to an extensive and intrusive inspection regime, through HMIC and its fellow criminal justice inspectorates; the results of these inspections are published nationally. The Constabulary responds to any issues highlighted during this process by developing action plans to address areas for improvement. In the first of the new annual PEEL assessments, published in November 2014, HMIC found that:

- the force is good at reducing crime and preventing offending, good at investigating offending and good at tackling anti-social behaviour;
- the efficiency with which the force carries out its responsibilities is outstanding; and
- the force is acting to achieve fairness and legitimacy

The Constabulary takes an inclusive, consultative and transparent approach to corporate decision making, with appropriately documented scrutiny around the operational need and organisational implications of decisions taken, including the financial costs and the organisational and operational risks and consequences, in every case.

The Constabulary has an internal scheme of responsibility, which outlines the relevant financial authority to each budget holder. There is an internal process for submitting business cases to the Director of Resources, where amounts exceed approved responsibility limits. Devolved budgets are routinely monitored and reported upon to ensure financial efficacy, and the Director of Resources provides regular updates on the financial position and scenarios for budget planning. In addition, the Chief Constable, as a corporation sole, makes decisions and raises issues in his own right, governed by a similar robust process.

Items outside of the delegated authority of the Chief Constable's CFO are submitted to the monthly Decision Making Session (DMS) for approval by the PCC. In addition, and to strengthen the transparency of decision making, those items approved by the Constabulary CFO are submitted to the DMS for information of the PCC, to ensure that he remains informed of decisions being made under delegated authority.

Statutory accounts, including opinion from External Auditors, are prepared in accordance with relevant legislation and are scrutinised by the Audit Committee prior to approval by the Chief Constable and the PCC and publication in September each year.

The Constabulary has an established risk management policy and procedures, which were reviewed in 2014. As a result of that review, the Deputy Chief Constable has established a new Risk Management Group, to provide a dedicated forum for consideration significant organisational and operational risks. The Group raises actions for mitigation and reports identified risks, via the Risk Register, to the chief officer and wider command teams. The Corporate Risk Register is reported through all management boards for information and action as appropriate.

**5. Developing the capacity and capability of the workforce to be effective in their roles.**

A costed HR Plan is produced by the Constabulary each year and outlines the workforce numbers of the organisation; it is presented to the PCC on an annual basis. HR data is scrutinised by the PCC at the monthly Management Board Meeting and quarterly at the Strategic Scrutiny Meeting.

The Constabulary has a People Strategy and Plan, with a framework of governance meetings that support their implementation, across a range of key people themes. This is designed to ensure that the organisation makes appropriate investment in its people, even as resources are becoming increasingly stretched. A rigorous approach to matching resources to demands is also carried out through detailed resourcing to ensure that sufficient resources are in place to provide capacity to meet operational requirements.

The Constabulary has established a Continuous Professional Development (CPD) process, which assumes competence but offers the opportunity for both development and improvement where these are applicable. This offers value for money in reducing bureaucracy at the frontline, whilst ensuring that performance and quality are appropriately managed and maintained.

The Performance Improvement Unit has been introduced to support managers in challenging and managing under-performance, to ensure that the Constabulary is achieving best value for money from its workforce, whilst providing appropriate support for officers and staff to achieve their best. This is part of an early intervention approach by the constabulary to identify early signs of staff vulnerability and address these before they emerge in more problematic ways.

Training needs analysis informs an annual Costed Learning and Development Plan, which outlines training costs, needs and commitments. Evaluation is undertaken at the point of delivery with service users. The Constabulary is committed to ensuring that leaders at all levels have the right skills to deliver effective leadership in the challenging environment they face and that they can deliver the leadership commitment to "**know your staff, know your stuff, know yourself".**

The Constabulary is continuing to take an innovative approach to supporting both the physical and emotional well-being of its workforce; the Well-being Strategy is designed to support the Constabulary's wider activity in implementing cultural change. Well-being Ambassadors have been introduced across the force, in all divisions and departments, to support officers and staff in need and an on-line resource known as the 'Big White Wall' provides a safe and anonymous community for people to share issues and get support.

**6. Engaging with community, partners and stakeholders to ensure robust public accountability.**

The Constabulary has a range of strategies, adapted to ensure the most appropriate and effective communication and consultation is achieved with both the public and partners. This approach embraces a range of traditional and new media, including social media platforms, such as Twitter and Facebook.

The Constabulary has a system of online engagement, called 'In the Know' (ITK), which circulates updates on crime and incidents at a very local level. Members of the public can sign up to receive the information most relevant to them, in the format of their choice. There are also ambitious new plans in place to improve digital engagement with the communities, starting with a new external facing website which facilitated much greater self-service and access to information.

The Constabulary is a key partner in Community Safety Partnerships (CSPs) in every local area, engaging with partner agencies to ensure best value for public money in delivering community safety outcomes for the public. In addition, the Constabulary has been recognised as a service leader in developing and implementing co-located partnership working, to deliver more effective interventions in safeguarding the most vulnerable victims and dealing with the most prolific offenders and challenging families.

Independent surveys assess both confidence of the general public and victim satisfaction with the Constabulary, providing useful perception data to support hard performance statistics relating to policing in a local area. The results are reported through the performance and scrutiny mechanisms outlined above.

Neighbourhood policing teams hold regular public meetings, known as PACT, to allow members of the community to voice concerns, highlight issues and influence priorities. The Constabulary is also developing digital engagement opportunities to improve levels of engagement with the community. This information is also included as part of the wider priority setting process for the force.

Internally, the Constabulary has introduced an innovative staff engagement tool known as 'The Buzz'. This provides a forum for staff to raise issues of concern directly to chief and senior officers and colleagues across the organisation and gives the opportunity for direct responses in return. It has proved to be a popular platform for myth and rumour-busting on a range of issues and Buzz Ambassadors enable anonymous posting for those who are reluctant. The Constabulary has also recently supplemented 'The Buzz' with a 'Buzz-o-meter', a quick quarterly survey to encourage even more staff to have their say.

## Review of Effectiveness

The Chief Constable is responsible for conducting an annual review of the effectiveness of the governance framework, including the system of internal control and audit. The review has been conducted by the Chief Officer team and takes account of comments from both internal and external audit and inspectorate reports.

The review involves gathering examples of effective controls, mitigation of risks and the overall efficiency and effectiveness of the organisation. The evidence gathered is documented in a separate record which is used to support the certificates of assurance signed by each of the chief officer team.

**Taking all these factors into account, the Constabulary system of internal control for 2014 - 2015 is considered to be both satisfactory and effective.**

## Ensuring Effective Governance of Organisational Risks

Through the annual governance review and ongoing risk management processes, the Constabulary has identified a number of key organisational risks which it considers prudent to monitor going forwards. These are described below, along with the action being taken to address them.

1. **Financial Pressures**

Medium term financial planning for 2015/16 -2017/18 indicates that the Constabulary must make cash savings of around £20m, in addition to the £60m saved since 2011-12. In addition, it is likely that the period of cuts in public spending will continue over the period of the current parliament to 2020.
This represents a significant challenge given the scale of reductions already made and the structural changes made to the constabulary's operating model. This presents the risk of a negative impact on service delivery and organisational resilience.

**Action to address:** in addition to the measures outlined within this review, the Constabulary has a well-established change programme, which has been systematically developing a future policing model for Lancashire. The programme is designed to take account of future resourcing levels, determined by financial scenario planning, and ensures that the Constabulary is configured in such a way that it can sustain a high quality, efficient and effective policing service for the county. The Constabulary will also continue to lead public sector services in developing multi-agency working arrangements, which deliver improved outcomes and better value for money. The successful award of £4.2m from the Home Office Police Innovation Fund will provide helpful seedcorn investment to deliver sustainable early action interventions to reduce demand.

**Chief Officer Lead:** Deputy Chief Constable/Director of Resources

2. **Management of Police Information**

Recent audit work has highlighted some challenges around ensuring compliance with data management legislation and guidance. There is an acknowledged risk of regulatory enforcement action, fines and reputational damage as a result.

**Action to address:** The Constabulary is monitoring this issue as part of a wider Gold Group and has put temporary resourcing solutions in place, prior to completion of a full Futures Review of Support Services, supported by systems thinking, to determine and build a more resilient structure.

**Chief Officer Lead:** Director of Resources

3. **Demand Pressures**

The Constabulary recognises that the changing nature of demand on policing, including the rise in the volume of historic and current sexual offences places a significant strain on resources, particularly as a result of the massive rise in the analysis of digital media. This results in backlogs in analysis which results in delays in case management. In order to mitigate the risk associated with this the Constabulary has secured additional funding from the PCC of £1m to reduce the backlogs. Additionally, the Constabulary's SMT receive monthly reports as part of the operational review of risk, threat and demand.

**Chief Officer Lead**: Deputy Chief Constable

4. **Corporate Governance Monitoring**

An unprecedented amount of inspection activity by HMIC and its fellow inspectorates has resulted in the identification of both national and force specific areas for improvement across a range of business areas. The force has developed a number of action plans to address those issues and this has highlighted a need to ensure that there is a process for appropriate governance of ongoing improvement activity.

**Action to address:** The Constabulary is developing a new governance intranet site which will facilitate corporate level monitoring of action plans, policies and a range of associated governance issues. Although significant work has already been done, it is clear that an automated system is required to support this work, particularly in the context of the reducing workforce. Whilst the software is already available, staff require training on utilising it effectively; this is scheduled to take place in June 2015.

**Chief Officer Lead:** ACC (Territorial Operations and Criminal Justice)

**5. Evidence Related Property**

As part of the internal audit plan, a recent audit was carried out into the controls around evidence related property processes. This audit provided no assurance on the control environment.

**Action to address:** Mitigation steps have been taken including a detailed action plan which will be overseen by the Director of Resources and a follow up review is planned for later on this year.

**Chief Officer Lead**: Director of Resources

## Summary

The Constabulary has been advised on the implications of the review of effectiveness of the governance framework by the Audit Committee, and that they continue to regard the arrangements as being fit for purpose.

The Constabulary proposes to take steps over the coming year to address the matters outlined above to provide further assurance of its governance arrangements. The Force is satisfied that these steps will address the issues highlighted during the review of effectiveness, and will monitor their implementation as part of the next review.

## Signed:

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**Chief Constable**
**Steve Finnigan CBE QPM**

**Date: 30 September 2015**

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**Chief Finance Officer**
**Ian Cosh**

**Date: 30 September 2015**

# GLOSSARY

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

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

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

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

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

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

**Appropriation**
A contribution to or from a financial reserve.

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

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

**Capital expenditure**
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

**Capitalisation**
The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the authority for a period of more than one year.

**Capital investment**
Money invested in capital projects.

**Capital projects**
Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

**Capital schemes**
Another term for 'capital projects'.

**Capitalise**
To treat as capital expenditure rather than revenue expenditure.

**Cash balance**
Cash available to invest on the money market.

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

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

**Central items**
Central overheads e.g. payroll costs.

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

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

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

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

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

**Council Tax precept**
The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The PCC's Council Tax income is charged through a precept on the district councils' collection funds.

**Creditors**
Amounts owed by the PCC for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

**Current assets and liabilities**
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

**Current service cost (IAS 19)**
The increase in the PCC's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

**Curtailment cost (IAS 19)**
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

**Debtors**
Amounts owed to the Authority which had not been paid by the date of the balance sheet.

**Defined Benefit Scheme**
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Depreciation**
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

**Discretionary benefits**
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the PCC's discretionary powers.

**Devolved financial management (DFM)**
The PCC's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

**Employer's pension contributions**
Payments to the pension scheme made by the Authority for current employees.

**Fair value**
Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Financial year**
The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

**Fixed assets**
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

**General Fund**
The main revenue fund used to provide police services. Income to the fund consists of the precept on the collection funds, government grants and other income.

**Government grants**
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

**Historic cost**
The cost of an asset at the time it was bought.

**Impairment**
This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

**Interest cost (pensions)**
The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

**Inventory**
Raw materials and consumable goods bought but not yet used at the end of the accounting period.

**Market value**
The monetary value of an asset as determined by current market conditions at the balance sheet date.

**Materiality**
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

**Net book value**
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Net pension liability**
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

**Nil consideration**
Where no charge is made for an item.

**Non-cash adjustments**
Changes in debtors' and creditors' balances over the year.

**Non-distributed costs**
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

**Operating lease**
A lease where ownership of the goods remains with the company leasing them to the PCC.

**Operational assets**
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

**Past service cost or gain (IAS19)**
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

**Pension enhancements**
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

**Precept**

A charge made by one authority which is collected by another authority – for example, the Council Tax precept.

**Prior period adjustments**
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Projected unit method (Pensions)**
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

**Provisions**
Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

**Public Works Loan Board (PWLB)**
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**Reconciliation**
The process of checking figures from different areas which should logically match up – for example, matching invoices paid against amounts banked.

**Related party**
A person or organisation which has influence over another person or organisation.

**Reserves**
Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

**Residual value**
The amount an asset can be sold for, less the cost of selling it.

**Revenue account**
An account which records the PCC's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

**Revenue expenditure**
The Authority's day-to-day spending. This is charged to the revenue account and consists mainly of salaries and wages, running costs and financing charges.

**Reversed out**
This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

**Specific grants**
Government grants for a particular service.

**Total net worth**
The total net value of resources available to or owned by the PCC.

**Transfer in**
A transfer of money into the pension fund from another pension fund.

**Transfer out**
A transfer of money out of the pension fund to another pension fund.

**Transfer value**
A payment made by one pension fund to another when a scheme member changes schemes.

**Useful life**
The period which an asset is expected to be available for use.

**Write down**
This is where amounts are charged to the revenue account or offset against another balance sheet account.