

**CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY**

**STATEMENT OF ACCOUNTS**

**2017/18**

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## NARRATIVE REPORT

### 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 (now replaced by the Local Audit and Accountability Act 2014) 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/CC Group accounts can be found at the following link:

<https://www.lancashire-pcc.gov.uk/our-money/spending/audit-of-accounts/>

The governance framework reinforces the PCC's 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.

<https://www.lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/>

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

The Accounts and Audit (England) Regulations 2015 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 2017/18 (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 2017/18 Statement of Accounts is prepared in accordance with the Code.

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

### 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 2018 (referred to as 2017/18).

The various sections contained within the consolidated financial statements are:

**Comprehensive Income and Expenditure Statement (CIES)** - 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.

**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).

**Balance Sheet**– This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the CC. 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. The net assets of the CC (assets less liabilities) are matched by reserves.

**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 2017/18.

**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 managed 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 Chief Constable to provide an efficient and effective policing service to the people of Lancashire.

To assist the Chief Constable 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. Pay budgets and costs are managed centrally, with an acceptance by the PCC that, although non pay costs would be managed locally, budget holders would not individually be held to account but the Chief Constable's financial performance would be judged against the overall "cash limit" agreed with the PCC.

The PCC budget for 2017/18 was set against a reduction of £2.513m in Central Government core grant support from £192.537m in 2016/17 to £190.024m in 2017/18 equivalent to a 1.3% reduction. The PCC agreed an increase in Council Tax from £162.22 in 2016/17 to £165.45 in 2017/18, equivalent to a 1.99% increase for a Band D equivalent.

The budget allocated to the Chief Constable in 2017/18 was £251.952m compared to £248.651m, equivalent to an increase of £3.301m.

In managing the budget in 2017/18 the non-pay revenue budget continued to be managed by Divisional Commanders and Heads of Departments but overseen by the relevant Chief Officer (Deputy Chief Constable, Assistant Chief Constables and Director of Resources) responsible for specific functional areas. Pay budgets were centralised with decisions on budgeted posts and vacancy management made through Strategic Resourcing Board and Vacancy/Redeployment Panel.

Officers and staff strength at 31 March was as follows:-

	Police Officers	Staff	Total
31 March 2018	2935.74	2041.94	4977.68
31 March 2017	2790.34	1951.59	4741.93
Increase	145.40	90.35	235.75

### **2017/18 Revenue Budget and Outturn**

The PCC set an initial overall budget of £261.647m for 2017/18 of which £251.952m was allocated to the Chief Constable. In addition, rules for Devolved Financial Management (DFM) allow the Chief Constable to carry forward any unused resources from the previous year to mitigate against unforeseen cost pressures. Accordingly around £2m was available in 2017/18 in addition to the allocated budget from the PCC of £251.952m.

During the year £0.285m has been transferred to the Office of the Police and Crime Commissioner (OPCC) corporate budget to finance the capital costs of additional vehicles for Armed Response. After a review of the accounting treatment for some computer licences, expenditure was switched from capital to revenue along with the budget for funding this expenditure. As a consequence of this change of treatment, £1.452m was transferred from the OPCC corporate budget to the CC budget.

In relation to DFM balances, funds have been utilised in year to meet the cost of one off investment previously agreed with the OPCC of £0.027m. Therefore DFM balances remaining at 31 March 2018 are £1.999m.

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The following table provides a summary of spend, by Chief Officers' area of responsibility, compared to the revised budget for 2017/18 of £253.146m (after the use, in year, of balances brought forward and utilised by the Chief Constable):

Responsibility Area	Revised Budget	Actual Spend	Variance
	£m	£m	- Underspend / Overspend £m
Centrally Managed Pay Budgets	198.485	201.142	+2.657
ACC Territorial Operations	8.659	9.026	+0.367
ACC Specialist Operations	5.405	6.342	+0.937
Director of Resources	17.605	16.916	-0.689
Deputy Chief Constable	5.442	5.769	+0.327
<b>Sub Total Chief Constable's Devolved Resources</b>	<b>235.596</b>	<b>239.195</b>	<b>+3.599</b>
Non Devolved resources	17.550	18.165	+0.615
<b>Total Resources Consumed on Behalf of PCC</b>	<b>253.146</b>	<b>257.360</b>	<b>+4.214</b>

The year-end position indicates a total overspend of £4.214m, which was mainly attributable to:-

- a decision to forward recruit officers and staff was made in 2016/17 to ensure resilience over the 2017/18 year, particularly over the summer months, and to meet demand in areas such as the Force Control Room and investigations resulted in an overspend on centrally managed pay of £1.365m.
- also within centrally managed pay, the unbudgeted impact of the additional non - consolidated 1% pay increase for police officers (payable monthly) and the offer to police staff of the same percentage increase but payable as a lump sum, effective from 1 September 2017, cost £1.292m. In announcing the police officer award the Home Office stated that no additional grant was available to meet the cost of the non - consolidated aspect which effectively falls against general balances.
- the additional cost of overtime across the Force of £1.3m, partly as a consequence of the terrorist threat and the need to provide reassurance to the residents of Lancashire (particularly after the attacks in Manchester and London) and to meet increasing demands on the service.
- the additional cost of Operation Manilla (anti fracking protests) of £2.220m after the anticipated receipt of Special Grant from the Home Office of £1.470m (included under non devolved resources above).

- the overspend on centrally managed pay of £1.365m from over recruitment, is offset by an underspend on non-devolved resources of £1.980m. Monies were retained at budget setting rather than being allocated to budget holders as a result of early transformation savings and a zero based approach in the allocation of budgets.
- the transformation of the Constabulary through the “Futures” work resulted in implementation costs of £0.511m being incurred mainly in relation to redundancy, training, equipment and accommodation.
- the provision for the cost of capitalisation of police officer ill health pensions was underspent by £0.444m; the actual number of ill health retirements in the year was 23 compared to the budgeted number of 30.
- the provision for revenue consequences of capital investment was underspent by £0.397m as a result of a lower level of capital expenditure.
- a shortfall on income of £0.388m through the Proceeds of Crime Act (POCA) scheme.

The main demand area which resulted in both additional costs and a significant draw on plain time costs was the anti-fracking protests. The overall cost of policing this protest was £6.943m with the Home Office providing financial support as Special Grant of £1.470m. Costs contained within existing budgetary provision was £3.253m leaving an overspend of £2.220m.

There were 354 arrests made as part of the police operation on the anti-fracking protests at Preston New Road over the period January 2017 to March 2018.

On a daily basis, there were approximately 100 officers directly involved in the policing of the operation. As has been demonstrated a number of times when campaigners have carried out 'lock-ons', it was essential to have the number of officers at the site that were allocated to the operation. Public safety is our main priority and having this number of officers available is essential for ensuring all parties remain safe.

During high demand in the summer months, mutual aid was required from a number of Forces across the country to assist in the operation.

### **Capital Funding and Outturn 2017/18**

The PCC initially approved a capital investment programme for 2017/18 of £38.121m and during the year approved new proposals from the Chief Constable as well as reducing the programme for slippage and underspends identified during the year. This resulted in an amended programme value of £36.229m for 2017/18.

The capital programme continued to reflect the strategic requirements agreed between the PCC and Chief Constable 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, investment aimed at providing more effective and efficient service delivery and an enabler to achieve revenue savings to assist in meeting the gap over the austerity period.

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

The following table summarises the position on the capital programme for 2017/18:

	Programme Value	Actual Spend	Slippage	Variance
	£m	£m	£m	-Underspend/ Overspend £m
IT Strategy	8.666	6.005	-2.835	0.174
Accommodation Strategy	21.108	18.079	-3.021	-0.008
Vehicle Replacement	3.769	3.248	-0.521	-
Other Schemes	2.686	2.183	-0.502	-0.001
<b>Total</b>	<b>36.229</b>	<b>29.515</b>	<b>-6.879</b>	<b>0.165</b>

Regular reports were provided by the Chief Constable to the PCC which highlighted, throughout the year, 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 £29.5m (£22.6m in 2016/17) enabled a number of important investments, particularly around ICT, to be undertaken in respect of the infrastructure supporting front line officers, device upgrade and replacement and the replacement of key systems. In addition, work continued on the new West Division HQ in Blackpool with completion due in 2018/19 as well as improving facilities in the East of the County.

### 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 2018 the net pensions' liability of the CC, calculated by the actuary, is £3,212m (a reduction of £485m over the previous year's figure of £3,697m). The net liability is split between the Local Government Pension Scheme (£115m) and the Police Pension Schemes (£3,097m). The police schemes are unfunded, i.e. no investments or other assets exist to offset future liabilities.

Other elements affecting the change in liability are shown in detail in Note 14 to the accounts.

### Police Pension Account

A police pension account was set up on 1 April 2006 and administers all of the police pension schemes (the 1987, 2006 and the 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2017/18 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. Prior to 2015/16 this additional contribution was financed in full by a top-up grant from the Home Office received by the PCC.

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. The amount of additional contribution required from the PCC in 2017/18 was £53m (2016/17: £56m) with £50m financed from Home Office grant (2016/17: £53m) and the balance being funded from within the budget allocated to the CC.

### **Operational Performance**

The Constabulary has maintained its strong track record in managing performance across its services. This was again reflected in the results of our latest HMICFRS 'Police Efficiency, Effectiveness and Legitimacy' (PEEL) assessment carried out during 2017/18:

Year	Effectiveness	Efficiency	Legitimacy
2017	Good	Good	Good

Ultimate scrutiny of performance rests with the PCC and, in holding the Chief Constable to account, the PCC established four priorities for Lancashire Constabulary during 2017/18 which are aligned to the Police & Crime Plan. These are:

1. Protecting Local Policing
2. Tackling Crime & Re-Offending
3. Supporting Vulnerable People & Victims
4. Developing Safe & Confident Communities

### **Protecting Local Policing**

Measures utilised to monitor service delivery included response times to answer 999 and 101 requests for service; the response target of 10 seconds was not achieved in the first two quarters of the year with our worst performance in July 2017 with an average speed to answer of 17.6 seconds and an abandonment rate of 5.6%.

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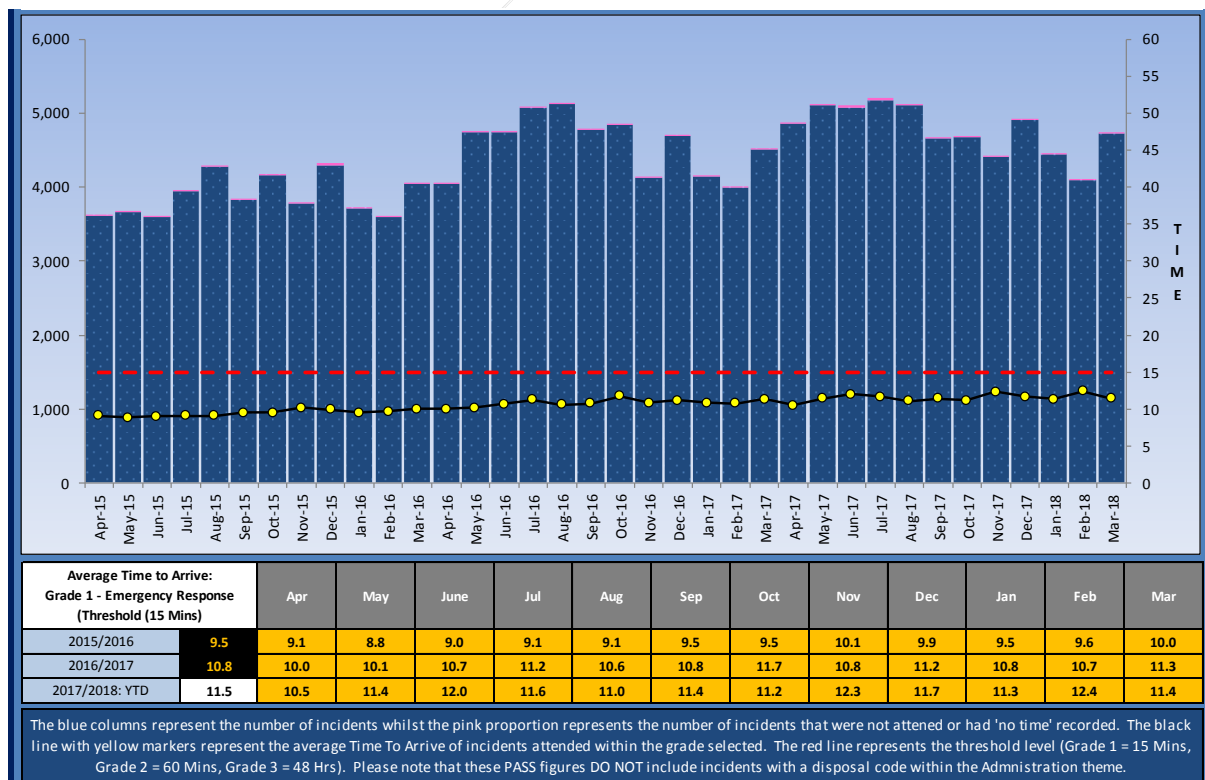
The table below shows 999 incoming calls from April 2017 to March 2018.

	Offered	Achieved	Service Level	Average speed to 10.2 answer	Abandonment Rate
APR	19833	13145	66.28%	10.2	1.2%
MAY	21425	13801	64.42%	11.2	1.3%
JUN	22739	11878	52.24%	13.9	2.9%
JUL	22296	13345	59.85%	17.6	5.6%
AUG	23006	13355	58.05%	14.4	2.0%
SEP	20980	13564	64.65%	12.3	2.0%
OCT	21357	14694	68.80%	10.0	1.3%
NOV	18906	15199	80.39%	6.7	0.9%
DEC	19463	15355	78.89%	7.5	0.8%
JAN	17607	14695	83.46%	6.0	0.7%
FEB	17280	13213	76.46%	7.9	1.8%
MAR	20019	14048	70.17%	10.0	1.4%

There has been an uplift of new staff in the control room who started their shifts on 9<sup>th</sup> April 2018 which has led to an improvement in average speed to answer calls, service levels, longest wait times and abandonment rates.

The 'Time to Arrive' at Grade 1 – Emergency Incidents is also measured. The aim is to arrive at emergency incidents within 15 minutes. In the last 12 months we have seen an increase of 0.7 minutes in the time taken to arrive at emergency incidents. However, we continue to be consistently below the 15 minute National threshold and the average for 2017/18 was 11.5 minutes.

The chart below shows time to arrive at emergency incidents by month since April 2015.



### Special Constabulary

There are currently 379 Special Constabulary Officers within Lancashire Constabulary. There was an intake of 38 in April 2018. The next intake will be September 2018, then January 2019 and HR will advise when the recruitment window will open.

39 Special Constabulary Officers were successful at the National Assessment Centre and are currently in the process to be interviewed to join the Regulars.

UCLAN Specials – 17 Officers Attested 25 April and are due to start in Division April 30 2018.

### Volunteers

Lancashire Constabulary has 390 volunteers and 8 volunteer researchers. The Constabulary recently re-recruited for cyber/digital community support volunteers. As part of this initiative over 2,000 school children have had cyber safety presentations delivered to them over the period 1 January - 31 March 2018. We have also recruited for volunteers for Independent Advisory Groups (IAGs) for West Division and Hate Crime Scrutiny Panel at HQ as well as Restorative Justice Volunteers across the County.

We are currently recruiting for Cadet Leaders Force-wide to assist Volunteer Police Cadet Units which are held term time for 13-18 year olds.

### Cadets

Lancashire Constabulary has 500 Police Cadets and an additional 22 Junior Cadets aged 10-13. Units are maintaining numbers and improving on the social action they complete with cadets and the opportunities they offer.

The recruitment window will open Force-wide in June 2018 for September start, to fill the vacancies of those turning 18 and leaving. The plans are to maintain unit numbers and improve the social action they complete.

Cadet to Specials application has been implemented and 9 cadets have just started their training on the Specials April 2018 intake.

### Lancashire Volunteer Partnership

The Police restructure took place on 1 June 2017. Volunteer Officers now also carry a case load of Community Support Volunteers (CSV). During 2017/18 294 CSVs have supported 374 clients.

The partnership has 6 geographic bases with partners to accommodate staff in Early Help enhanced offer areas, Preston, Chorley, Blackpool, Morecambe, Burnley and Blackburn. The Partnership HQ is based at Police HQ.

All three top tier authorities are engaged. Blackpool Council are now on board and more recently Pennine Hospital NHS trust.

### Neighbourhood Watch

In the past 12 months the existing NHW Co-ordinators were contacted by various means and invited to register with Lancashire Volunteer Partnership. To date, 250 have re-registered. Several committee members and co-ordinators have been trained on the Volunteer

Management System (Better Impact). This will now enable them to deal with enquiries, new applicants and have direct contact with their members. There is currently an ongoing campaign to recruit new NHW co-ordinators across the county.

### **Tackling Crime & Re-Offending**

Overall crime in Lancashire has increased by 18.3% (19,610) when comparing the end of year performance with the previous twelve month period. The main categories which have contributed to this increase are:

- Non-Injury Assault – Up 3,905 (38.7%)
- Assault – Less Serious Injury – Up 2,010 crimes (14.2%)
- Harassment – Up 782 crimes (16.7%)
- Public Order Offences – Up 3,073 (102.7%)

In a report commissioned to understand re-offending within the force it was found that, when looking at re-offenders (those who committed another crime 12 months following their initial offence) versus non-reoffenders, acquisitive crimes were the strongest in predicting re-offending (Theft, Robbery). They also found that 69% of re-offenders committed either a theft or violence against the person offence, as their most recent offence. When looking at the Office of National Statistics severity scores it was found that re-offenders' crimes scored lower on the severity score than non-re-offenders. For offences marked as being Domestic Abuse (DA) 37% of offenders went on to re-offend across all crime types (DA and non-DA).

*Police Intelligence Assessment: Offending and Reoffending Behaviour in Lancashire (Sculpher & Birdsall, 2017)*

Domestic Abuse referrals figures are not currently available.

### **Supporting Vulnerable People & Victims**

There has been an increase of 99% in Hate Crimes recorded by Lancashire Constabulary in 2017/18 compared to the previous twelve months. This will be largely influenced by the new guidelines issued by the crime registrar in relation to the accurate recording of reports of hate as crimes rather than incidents where appropriate.

Last year's 'Operational Performance' report focussed on the importance of addressing vulnerability. A report has been written investigating repeat victimisation across the Force. The key findings were that at a minimum level of at least 21% of all victims of crime were repeat victims between April 2012 and March 2017 (which is believed to be an underestimate due to data and measurement limitations). This is a trend that was found to be increasing year on year. Key drivers associated with re-victimisation were found to be Domestic Abuse and Alcohol.

*Partnership Intelligence Assessment. Repeat Victimisation in Lancashire (Cartmell, 2017)*

### **Developing Safe & Confident Communities**

The questions that form the User Satisfaction Surveys were scaled back this year following feedback from our service users. about the length of the surveys and a change in Home Office reporting requirements. As previously reported the five main aspects of the survey remain in place and the results follow. In addition to the changes made to the surveys for Burglary, Violent crime, Hate crime and ASB, Vehicle crime is no longer surveyed. We have also introduced a new survey for Domestic Abuse referral victims.

The table below shows the percentage of those surveyed who identified as being 'At Least Fairly Satisfied' with the service they have received.

Aspect	12 Months Ending March 2018
Initial Contact	82.6%
Police Actions	68.3%
Follow Up	57.6%
Treatment	85.7%
Whole Experience	73.9%

*Burglary, Violent crime, Hate crime and ASB*

The percentage of victims surveyed who were satisfied has decreased in all aspects of service compared to the 12 months preceding. This is a significant decrease in all but 'Follow Up'. The reduction for 'Whole Experience' is 4.5%. There are currently no year on year comparisons for our new Domestic Abuse Survey.

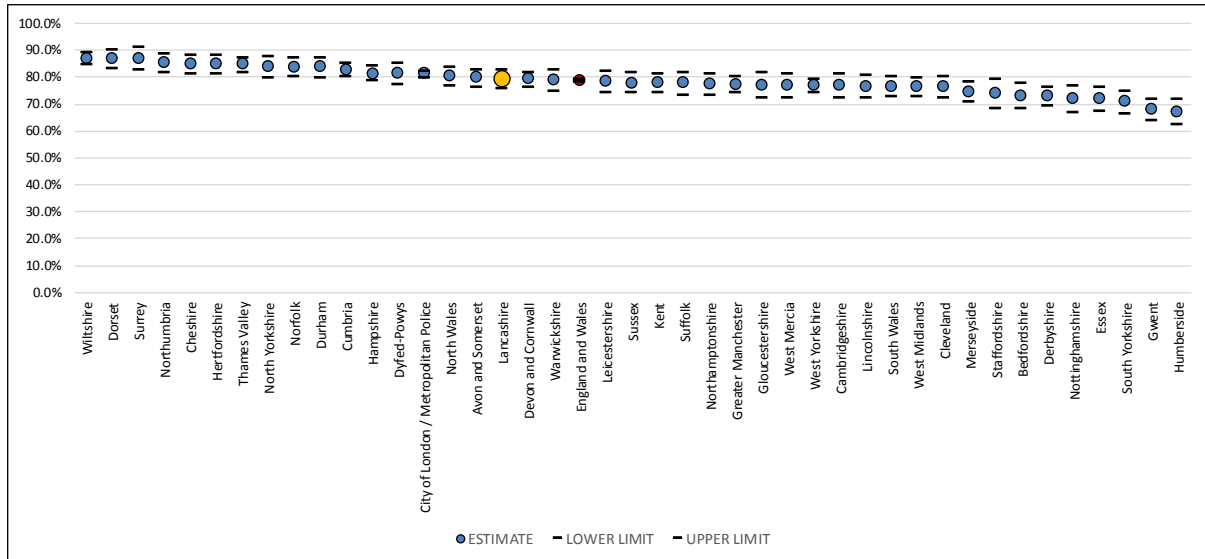
Aspect	Jun 2017 to Mar 2018
Initial Contact	93.8%
Police Actions	81.2%
Follow Up	64.3%
Treatment	86.3%
Whole Experience	82.7%

*Domestic Abuse*

The Public Confidence data is obtained via the Crime Survey for England & Wales. One of the questions in the Crime Survey for England & Wales relates to 'Overall Confidence in Local Police'. The data from the Crime Survey for England & Wales is only released quarterly and the most recent results available are for the 12 month period ending December 2017. The current result stands at 79.3% and is down 1.4%.

The chart below, if you use the point estimate result, shows Lancashire (depicted with a large yellow circle) is above the figure for England & Wales (depicted with red circle) and remains in 17<sup>th</sup> in the country for 'Overall Confidence in Local Police'. We were second within our Most Similar Group and third of the North West forces.

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There are other questions within the 'Perceptions' section of the Crime Survey for England & Wales and the results are as follows based on the percentage saying they 'strongly agree' or 'tend to agree'.

Question	Estimate Result	National Position	MSG	NW Region
Police can be relied on when needed	60.8%	24 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>
Police would treat you with respect	89.0%	16 <sup>th</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>
Police would treat you fairly	71.0%	19 <sup>th</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Police understand local concerns	74.9%	9 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
Police deal with local concerns	62.6%	16 <sup>th</sup>	1 <sup>st</sup>	4 <sup>th</sup>

These results mean that we are above the average estimate results for England and Wales in all areas except for 'Police can be relied on when needed'. This is also the area where we have received our greatest percentage reduction and relative to last year had our biggest fall in the national position.

### Financial Risks going forward

The Medium Term Financial Strategy (MTFS) is regularly updated to reflect available resources against the committed budgetary requirement. The ensuing "gap" is managed through the 'Futures Programme' which ensures the Force is able to remain efficient and effective within the context of a continuing challenging financial environment. The Chief Constable/Constabulary have an excellent track record in managing resources and this "ethos" together with the close working relationship between the PCC CFO and Chief Constable's CFO in managing reserves and balances assists in mitigating any financial risk to the overall budget and that of the Chief Constable.

DFM balances of £1.999m were available to the Chief Constable at the end of 2017/18 and will be the first call to mitigate the risk around unbudgeted and unforeseen costs arising in

2018/19. Beyond these resources is the Reserves held by the PCC which are set aside to assist with managing financial risks and pressures.

Allocated budgets are also closely scrutinised before they are finalised with a view to identifying any early non pay savings that can be offset against the “gap” or are available in year to meet unbudgeted costs.

### **Financial Outlook**

The PCC, in conjunction with the CC, has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of more than £102m of savings are likely to be required over the period 2011/12 – 2021/22 of which £84m has already been identified.

The longer term financial position is reviewed on a regular basis and further savings of around £18m are currently forecast to be required for the period 2019/20 to 2021/22. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMICFRS and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.

The level of funding and demand pressures for 2018/19 and future years remains uncertain.

Specific Risks are:

- **Anti-Fracking Protests** – The Home Office did not meet the total costs of policing the protests in 2017/18 resulting in the earmarked Operational Policing Reserve being utilised in that year. There is no specific funding to meet the costs of policing in 2018/19 with costs likely to be similar to those incurred in 2017/18. The Constabulary will consider options available to police these protests in 2018/19.
- **Future levels of top-slicing** - The PCC’s MTFs includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2018/19 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.
- **Partner Funding for PCSOs** - The PCC is committed to ring-fencing police budgets that currently fund PCSOs, however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners are continuing to provide funding in 2018/19 but the ability to continue to provide this support in future years is uncertain as a result of the financial constraints faced by our partners.
- **Replacement of Airwave** - The emergency services communications network, ‘Airwave’, was scheduled to be replaced by 2019/20. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure. It has been made clear by the Home Office that the timetable for the

implementation of the new network has been delayed and a specific implementation date has not been provided adding considerable uncertainty to the process. It is also unclear if the final deadline for completing implementation in 2019/20 will be met. It has not been made clear how much the transition to the new system will cost but any further programme delays will have a significant cost for the policing service as a whole and individual forces within it. This cost is an additional burden to the expected costs of adopting the new system once it is in place. These costs, once known, will impact upon both the revenue budget and the capital programme and will have a significant impact on both.

- **Review of the Police Funding Formula** - The Home Office intended to implement a revised funding formula for policing in 2018/19 which would impact upon the amount of grant received by the PCC. A significant exercise has been undertaken by the Home Office in respect of developing the new formula which has not yet been published for review and consultation. The Home Office has indicated that the review of the funding formula will inform the next Comprehensive Spending Review due in 2019 which will clearly influence the amount of funding Lancashire receives.
- **Impact of cuts to Local Government funding** - Local Authorities face significant further budget reductions in future years. It is expected that this, in turn, will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS
- **Changing nature of Police demand** – The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognized by the National Audit Office (NAO), crime levels are a limited measure of demand and do not show the full range of work carried out by the police, much of which is “volume vulnerability” and not crime related activity. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.
- **Changes to the discount rate for pension costs** - The level of discount applied to employer's costs in respect of police pension payments in 2019/20 is to reduce which will in turn increase the costs for the employers. At this stage it is not possible to calculate the value of this change but it is expected to be a significant annual increase in cost.

*Ian L Cosh*

Ian L Cosh  
Director of Resources and Chief  
Constable's Chief Finance Officer

20 July 2018



## 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 Director of Resources.
- 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 2018

*Andy Rhodes*

ANDY RHODES

Chief Constable of Lancashire Constabulary  
20 July 2018

### The Chief Finance 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 2018 and for the year then ended.

*Ian L Cosh*

IAN L COSH MA, CPFA  
Director of Resources and the Chief Constable's Chief Finance Officer  
20 July 2018

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2016/17 Net Exp £000		Notes	Gross Exp £000	2017/18 Gross Inc £000	Net Exp £000
204,536	Centralised Pay Budgets		243,431	-	243,431
30,473	Director of Resources*		33,436	-	33,436
10,239	ACC-Territorial Ops.*		10,262	-	10,262
11,879	ACC-Specialist Ops.*		7,759	-	7,759
2,999	Deputy Chief Constable*		6,669	-	6,669
32,374	Constabulary Non-Devolved budgets*		35,539	-	35,539
(333,888)	Funding received by CC from PCC	10	-	(340,450)	(340,450)
(41,388)	<b>Net Cost of Services</b>		<b>337,096</b>	<b>(340,450)</b>	<b>(3,354)</b>
101,597	Net Interest on Defined Benefit Liability	14			91,414
60,209	<b>Deficit on Provision of Services</b>				<b>88,060</b>
690,541	Re-measurements of pension assets/liabilities	8			(572,609)
690,541	<b>Other Comprehensive (Income) &amp; Expenditure</b>				<b>(572,609)</b>
750,750	<b>Total Comprehensive (Income) &amp; Expenditure</b>				<b>(484,549)</b>

\*The areas of responsibility covered in these budgets are as follows:

<i>Director of Resources</i>	<i>Business support functions and ICT</i>
<i>ACC-Territorial Ops.</i>	<i>Uniformed territorial and specialist operations</i>
<i>ACC-Specialist Ops.</i>	<i>Specialist crime and Investigations and crime support</i>
<i>DCC</i>	<i>Human resources, professional standards and learning and development</i>
<i>CC Non-Devolved</i>	<i>Includes collaboration, injury pensions, grant funded projects and other miscellaneous items</i>

## MOVEMENT IN RESERVES STATEMENT 2016/17 and 2017/18

This statement shows the movement in the 2016/17 and 2017/18 financial years on the different reserves held by the CC. At present, the only transactions shown in these statements 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

	Note	General Fund Balance £000	Total Usable Reserves £000	Pensions Reserve £000	Accumulated Absences Reserve £000	Total Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2016</b>		-	-	(2,945,779)	(5,256)	(2,951,035)	(2,951,035)
<b>Movement in reserves during 2016/17:</b>							
Total Comprehensive Income & (Expenditure)		(60,209)	(60,209)	(690,541)	-	(690,541)	(750,750)
Adjs between accounting basis & funding basis under regulations:	7	<b>60,209</b>	<b>60,209</b>	<b>(60,321)</b>	<b>112</b>	<b>(60,209)</b>	-
<b>Balance at 31 March 2017</b>		-	-	(3,696,641)	(5,144)	(3,701,785)	(3,701,785)
<b>Movement in reserves during 2017/18:</b>							
Total Comprehensive Income & (Expenditure)		(88,060)	(88,060)	572,609	-	572,609	484,549
Adjs between accounting basis & funding basis under regulations:	7	<b>88,060</b>	<b>88,060</b>	<b>(88,231)</b>	<b>171</b>	<b>(88,060)</b>	-
<b>Balance at 31 March 2018</b>		-	-	(3,212,263)	(4,973)	(3,217,236)	(3,217,236)

**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 2017		Notes	31 March 2018
£000			£000
6,672	Short Term Debtors –Intragroup Debtor		8,150
6,672	<b>Current Assets</b>		<b>8,150</b>
(11,816)	Short Term Creditors	11	(13,123)
(11,816)	<b>Current Liabilities</b>		<b>(13,123)</b>
(3,696,641)	Pensions Liability	14	(3,212,263)
(3,696,641)	<b>Long Term Liabilities</b>		<b>(3,212,263)</b>
(3,701,785)	<b>Net Assets</b>		<b>(3,217,236)</b>
(3,696,641)	Pensions Reserve	8	(3,212,263)
(5,144)	Accumulated Absences Reserve	8	(4,973)
(3,701,785)	<b>Total Unusable Reserves</b>		<b>(3,217,236)</b>

## 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.

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
60,209	Net (surplus)/deficit on the provision of services	88,060
(60,209)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 12)	(88,060)
-	<b>Net Cash Flows from Operating Activities</b>	-

## NOTES TO THE ACCOUNTS - Index

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## 1. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources e.g. government grants and council tax by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted practices. It also shows how this expenditure is allocated for decision-making purposes between budget areas. Income and expenditure accounted for under generally accepted practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Net Exp chargeable to Police General Fund	2016/17		Net Exp in the Comprehensive Inc and Exp Statement		2017/18		Net Exp in the Comprehensive Inc and Exp Statement
	Adjs between the funding and accounting basis	£000			£000	Adjs between the funding and accounting basis	
£000	£000	£000			£000	£000	£000
<b>194,320</b>	<b>10,216</b>	<b>204,536</b>		<b>Chief Constable:</b>			
<b>30,473</b>	-	<b>30,473</b>		Centralised Pay Budgets	<b>201,438</b>	<b>41,993</b>	<b>243,431</b>
<b>10,239</b>	-	<b>10,239</b>		Director of Resources	<b>33,436</b>	-	<b>33,436</b>
<b>11,879</b>	-	<b>11,879</b>		ACC-Territorial Ops.	<b>10,262</b>	-	<b>10,262</b>
<b>2,999</b>	-	<b>2,999</b>		ACC-Specialist Ops.	<b>7,759</b>	-	<b>7,759</b>
<b>83,978</b>	<b>(51,604)</b>	<b>32,374</b>		Deputy Chief Constable	<b>6,669</b>	-	<b>6,669</b>
<b>(333,888)</b>	-	<b>(333,888)</b>		Constabulary Non-Devolved budgets	<b>80,886</b>	<b>(45,347)</b>	<b>35,539</b>
-	<b>(41,388)</b>	<b>(41,388)</b>		Funding received from the PCC	<b>(340,450)</b>	-	<b>(340,450)</b>
-	<b>101,597</b>	<b>101,597</b>		<b>Net Cost of Services</b>	-	<b>(3,354)</b>	<b>(3,354)</b>
-	<b>60,209</b>	<b>60,209</b>		Other Income and Expenditure	-	<b>91,414</b>	<b>91,414</b>
				<b>Deficit on provision of service</b>	-	<b>88,060</b>	<b>88,060</b>

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2017/18  
NOTES TO THE ACCOUNTS

The table below explains the differences between segmental figures that are shown in the Net Cost of Services chargeable to Police General Fund and those figures reported to the CC at outturn which are shown under the same segmental headings in the 2017/18 Narrative Report (Page 4).

	Net Exp	Amounts included in the 2017/18 Outturn figures (Page 4) but not included in				Outturn
	chargeable	Net Cost of Services in the CIES (Page 16)				Report
	to Police	Income	Included in Other	Movement in	PCC funding of	
General	reported in	Included in Other	Income &	reserves-either	Constabulary	
Fund	PCC CIES	Income &	Expenditure	budgeted or	expenditure, both	
		PCC CIES		approved in year	budgeted and in-year.	
	£000	£000	£000	£000	£000	£000
<b>Chief Constable:</b>						
Centralised Pay Budgets	201,438	-	-	-	(296)	<b>201,142</b>
Director of Resources	33,436	(1,205)	(293)	(214)	(14,808)	<b>16,916</b>
ACC-Territorial Ops.	10,262	(1,222)	-	(14)	-	<b>9,026</b>
ACC-Specialist Ops.	7,759	(1,388)	-	(29)	-	<b>6,342</b>
Deputy Chief Constable	6,669	(899)	-	(1)	-	<b>5,769</b>
Constabulary Non-Devolved budgets	80,886	(13,918)	(49,504)	701	-	<b>18,165</b>
Funding received from the PCC	(340,450)	-	-	-	340,450	-
<b>Net Cost of Services</b>	<b>-</b>	<b>(18,632)</b>	<b>(49,797)</b>	<b>443</b>	<b>325,346</b>	<b>257,360</b>



CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2017/18  
NOTES TO THE ACCOUNTS

The table below provides a more detailed breakdown of the main adjustments to Net Expenditure Chargeable to Police General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement

Adjs between Funding and Accounting Basis 2016/17			Adjs between Funding and Accounting Basis 2017/18			
Net change for pensions adjs (Note A)	Other differences (Note B)	Total Adjs		Net change for pensions adjs (Note A)	Other differences (Note B)	Total Adjs
£000	£000	£000		£000	£000	£000
10,318	(102)	10,216	Centralised Pay Budgets	42,150	(157)	41,993
(51,594)	(10)	(51,604)	Constabulary Non-Devolved budgets	(45,333)	(14)	(45,347)
<b>(41,276)</b>	<b>(112)</b>	<b>(41,388)</b>	<b>Net Cost of Service</b>	<b>(3,183)</b>	<b>(171)</b>	<b>(3,354)</b>
101,597	-	101,597	Other income and expenditure from Expenditure and Funding Analysis	91,414	-	91,414
<b>60,321</b>	<b>(112)</b>	<b>60,209</b>	<b>Difference between General Fund deficit and CIES Deficit on Provision of Services</b>	<b>88,231</b>	<b>(171)</b>	<b>88,060</b>

Note A - Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19  
*Employee Benefits* pension related expenditure and income.

- For services this represents the removal of the employer pension contributions made by the PCC and CC as allowed by statute and the replacement with current and past service costs;
- For Financing and investment income and expenditure the net interest on the defined benefit liability is charged to the CIES.

Note B – Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

- For services this represents the change in accrued employee benefits such as annual leave and time off in lieu;

## 2. EXPENDITURE AND INCOME ANALYSED BY NATURE

The CC's expenditure and income is analysed by nature as follows:

	<b>2017/18</b>	2016/17
	<b>£000</b>	£000
<b>Expenditure</b>		
Employee expenses	281,368	237,592
Other service expenses	40,919	40,394
Charge for use of assets	14,809	14,514
Pensions interest cost	91,414	101,597
<b>Total expenditure</b>	<b>428,510</b>	<b>394,097</b>
<b>Income</b>		
Funding received from the PCC	(340,450)	(333,888)
<b>Total Income</b>	<b>(340,450)</b>	<b>(333,888)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>	<b>88,060</b>	<b>60,209</b>

## 3. 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 3 to the PCC/PCC Group Statement of Accounts. The critical judgements that impact on the CC are:

- There remains a significant 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 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.

## 4. 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 2018 but not yet adopted by the Code.

IFRS 9 Financial Instruments;

The International Accounting Standards Board's (IASB) project to replace IAS 39 has been on the Board's active agenda since 2008. The Board has undertaken the project in phases, first issuing IFRS 9 in 2009 with a new classification and measurement model for financial assets and then adding requirements related to financial liabilities and de-recognition in 2010. The IASB amended IFRS 9 in 2013 to add new general hedge accounting requirements.

This final version of IFRS 9 adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

Whilst introducing increased disclosure requirements, the only area that is likely to impact on the CC's Income and Expenditure account is the requirement to provide for lifetime expected credit loss at the point at which the debt is first recognised. The model suggested for calculating these credit losses may result in the requirement to introduce an increased level of provision but, given that the sources of police

income are, in the main, local income from council tax and central government, these provisions are not expected to be material.

IFRS 15 Revenue from Contracts with Customers;

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services, for example if a contract included certain performance criteria, the recognition of revenue should be linked with the meeting of performance criteria.

This change is not expected to impact on the financial statements of the CC.

The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year i.e. 2017/18 is not restated.

The following amendments to accounting standards have also been made but are not expected to have any material impact on the CC financial statements:

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.
- IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle, and
- IFRIC 22 Foreign Currency Transactions and Advance

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 2018 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 14 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 £702m. However, the assumptions act in a complex way. During 2017/18, the CC's actuaries advised that the net pensions' liability had reduced by £226m as a result of changes in financial assumptions. This included a reduction of 0.2% in the discount rate of the police officer schemes, which increases the liability, along with reductions in assumptions for inflation, salary and pension increases which result in reductions in liability. The liability had further reduced by £152m as a result of demographic assumptions including reductions in longevity assumptions.

6. **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 20 July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**NOTES TO THE MOVEMENT IN RESERVES STATEMENT**

7. **ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the CC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the PCC to meet future revenue expenditure. The adjustments are made against the General Fund Balance.

	2017/18 £000	2016/17 £000
<b>Adjustments to Revenue Resources</b>		
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:		
• Pensions costs (transferred to (or from) the Pensions Reserve)	88,231	60,321
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	(171)	(112)
<b>Total Adjustments</b>	<b>88,060</b>	<b>60,209</b>

## 8. 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.

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Pensions Reserve	(3,212,263)	(3,696,641)
Accumulated Absences Account	(4,973)	(5,144)
<b>Total Unusable Reserves</b>	<b>(3,217,236)</b>	<b>(3,701,785)</b>

### **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.

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
<b>Balance at 1 April</b>	<b>(3,696,641)</b>	<b>(2,945,779)</b>
Re-measurements of the net defined benefit (liability)/ asset	572,609	(690,541)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(176,706)	(152,062)
Employer's pensions contribution and direct payments to pensioners payable in the year	88,475	91,741
<b>Balance at 31 March</b>	<b>(3,212,263)</b>	<b>(3,696,641)</b>

## 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, e.g. 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.

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
<b>Balance at 1 April</b>	<b>(5,144)</b>	<b>(5,256)</b>
Settlement or cancellation made at the end of the preceding year	5,144	5,256
Amounts accrued at the end of the current year	<u>(4,973)</u>	<u>(5,144)</u>
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	171	112
<b>Balance at 31 March</b>	<b>(4,973)</b>	<b>(5,144)</b>

## 9. 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 (e.g. 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 e.g. 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 a staff member's employment before the normal retirement date or a staff member's decision to accept voluntary redundancy and are charged to the CIES at the earlier of when the CC 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.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2017/18  
NOTES TO THE ACCOUNTS

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

**Senior Officers and Relevant Police Officers 2017-18**

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 A - S Finnigan	Note 1	46,390	-	-	1,735	48,125	0	48,125
Chief Constable B - A Rhodes	Note 1	121,056	-	-	6,526	127,582	28,782	156,364
Deputy Chief Constable A	Note 2	33,314	-	-	1,292	34,606	7,891	42,497
Deputy Chief Constable B	Note 2	100,772	-	-	11,396	112,168	23,919	136,087
Assistant Chief Constable - Territorial Divisions & Criminal Justice A	Note 3	35,226	-	-	2,208	37,434	8,257	45,691
Assistant Chief Constable - Territorial Divisions & Criminal Justice B	Note 3	73,837	-	-	5,462	79,299	17,845	97,144
Assistant Chief Constable - Specialist Operations A	Note 4	112,410	-	-	5,900	118,310	26,615	144,925
Assistant Chief Constable (temp) - Specialist Operations B	Note 4	8,311	-	-	-	8,311	1,637	9,948
Director of Resources		111,248	-	-	9,566	120,814	15,575	136,389

Note 1 Post covered by two officers over the year: A- 1 April - 28 June 2017; B - 29 June - 31 March 2018.

Note 2 Post covered by two officers over the year: A- 1 April - 28 June 2017; B - 29 June - 31 March 2018.

Note 3 Post covered by two officers over the year: A - 1 April - 28 June 2017; B - 29 June - 31 March 2018

Note 4 Post covered by two officers over the year: A - 1 April - 31 March 2018; B - 5 March - 31 March 2018. Officer B was a temporary promotion, covering absence.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2017/18  
NOTES TO THE ACCOUNTS

**Senior Officers and Relevant Police Officers 2016-17**

<b>Post Holder Information (Post title only)</b>	<b>Salary (including allowances)</b>	<b>Bonuses</b>	<b>Expense Allowances</b>	<b>Benefits in Kind</b>	<b>Total Remuneration excl. pension contribs</b>	<b>Pension Contribs.</b>	<b>Total Remuneration</b>
	£	£	£	£	£	£	£
Chief Constable -S Finnigan	164,463	-	-	3,384	<b>167,847</b>	-	<b>167,847</b>
Deputy Chief Constable	132,112	-	-	5,431	<b>137,543</b>	31,285	<b>168,828</b>
Assistant Chief Constable-Territorial Divs. & Criminal Justice	108,872	-	-	5,896	<b>114,768</b>	25,662	<b>140,430</b>
Assistant Chief Constable-Specialist Ops.	105,453	-	-	4,506	<b>109,959</b>	24,931	<b>134,890</b>
Director of Resources	114,661	-	-	8,968	<b>123,629</b>	13,186	<b>136,815</b>



The CC employed an estimated 4,980 full time equivalents during 2017/18 (4,846 in 2016/17). 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):-

	2017/18			2016/17		
	Police Officers	Police Staff	Total	Police Officers	Police Staff	Total
£105,000 - £109,999	-	-	-	-	1	1
£85,000 - £89,999	3	-	3	3	1	4
£80,000 - £84,999	9	-	9	7	-	7
£75,000 - £79,999	5	-	5	7	1	8
£70,000 - £74,999	5	2	7	7	2	9
£65,000 - £69,999	6	0	6	5	-	5
£60,000 - £64,999	19	3	22	9	1	10
£55,000 - £59,999	117	2	119	74	5	79
£50,000 - £54,999	191	9	200	131	9	140
<b>Total</b>	<b>355</b>	<b>16</b>	<b>371</b>	<b>243</b>	<b>20</b>	<b>263</b>

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 officers and police staff who appear only as a consequence of a one-off exit payment (redundancy payments for police staff and payments made under the Voluntary Exit Scheme for police officers). The numbers and banding affected are shown below:

	2017/18		2016/17	
	Police Staff	Total	Police Staff	Total
£105,000 - £109,999	-	-	1	1
£85,000 - £89,999	-	-	1	1
£60,000 - £64,999	1	1	-	-
£55,000 - £59,999	1	1	2	2
£50,000 - £54,999	2	2	-	-
	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>

### 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:

**2017/18:**

<b>Bandings</b>	<b>Number of Compulsory Redundancies</b>	<b>Number of Other Departures</b>	<b>Total cost of exit packages in each band £</b>
£0 - £20,000	5	10	139,077
£20,001 - £40,000	6	2	236,870
£40,001 - £60,000	2	-	108,851
£60,001 - £100,000	2	-	152,311
<b>Total</b>	<b>15</b>	<b>12</b>	<b>637,109</b>

**2016/17:**

<b>Bandings</b>	<b>Number of Compulsory Redundancies</b>	<b>Number of Other Departures</b>	<b>Voluntary Exit Scheme (Police Officers)</b>	<b>Total cost of exit packages in each band £</b>
£0 - £20,000	1	9	2	90,048
£20,001 - £40,000	-	8	1	260,725
£40,001 - £60,000	2	2	-	194,974
£60,001 - £100,000	2	0	-	173,120
<b>Total</b>	<b>5</b>	<b>19</b>	<b>3</b>	<b>718,867</b>

**10. 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 are 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:

2016/17 £000		2017/18 £000
394,097	Provision of services deficit in CC CIES prior to PCC funding	428,510
(152,062)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(176,706)
91,741	Replace with actual employer contribution funded by PCC	88,475
112	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	171
<b>333,888</b>	<b>PCC funding for PCC resources consumed at the request of the CC</b>	<b>340,450</b>
	Consisting of:	
14,514	Fair value adjustment for CC consumption of PCC property & equipment	14,809
319,374	Other resources	325,641
<b>333,888</b>	<b>Total PCC resources consumed at the request of the CC</b>	<b>340,450</b>

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

2016/17 £000		2017/18 £000
4,757	Buildings	4,925
6,647	Vehicles, Plant and Equipment	7,457
3,110	Intangible Assets	2,427
<b>14,514</b>	<b>Net Expenditure</b>	<b>14,809</b>

## 11. Creditors

31 March 2017 (re-stated) £000		31 March 2018 £000
	Creditors comprise:	
4,076	Central Government Bodies	4,250
5,144	Other Entities and Individuals –Accumulated Absences	4,973
2,596	-Other employment-related creditors	3,900
<b>11,816</b>	<b>Total</b>	<b>13,123</b>

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

2016/17 £000		2017/18 £000
(800)	Net increase/(decrease) in revenue debtors	1,478
912	Net (increase)reduction in revenue creditors	(1,307)
(60,321)	Pension liability	(88,231)
<b>(60,209)</b>	<b>Total</b>	<b>(88,060)</b>

### 13. 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. The Director of Resources, who is a member of the CC's senior management team, resigned as the Constabulary member director of Jobs, Friends, and Houses Community Interest Company on 6<sup>th</sup> April 2017. Payments totalling £0.173m were made to the company during 2017/18 to support the activities of the company. No further material related party interests were disclosed.

#### **Jointly Controlled Operations/Collaboration**

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 CIES 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:

<b>2016/17 PCC Group Net Exp</b>		<b>Grant Income (PCC CIES)</b>	<b>2017/18 Expenditure (CC CIES)</b>	<b>PCC Group Net Exp</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>
645	Regional Crime Unit	(177)	819	642
0	Regional Asset Recovery	(167)	167	-
29	Regional Intelligence Unit	(62)	87	25
469	Confidential Unit	(50)	517	467
480	Technical Surveillance unit	(40)	531	491
302	Protected Persons Service	-	331	331
131	Prisoner Intelligence	(83)	206	123
13	Operational Security Officer	(16)	29	13
0	Operations 2	-	322	322
0	Operations 3	(107)	298	191
147	Business Support	(29)	169	140
<b>2,216</b>		<b>(731)</b>	<b>3,476</b>	<b>2,745</b>

Lancashire also contributed £0.024m to the cost of a collaboration coordinator post within Merseyside.

The following joint operations have Cheshire as lead force:

<b>2016/17 PCC Group Net Exp</b>		<b>Income (PCC CIES)</b>	<b>2017/18 Expenditure (CC CIES)</b>	<b>PCC Group Net Exp</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>
153	Joint Underwater Search Unit	(68)	221	153
250	Motorways and ANPR	0	256	256
62	Firearms Collaboration	0	69	69
37	Emergency Services Network	0	55	55
<b>502</b>		<b>(68)</b>	<b>601</b>	<b>533</b>

The Learning and Development collaboration is a joint operation between Lancashire and Cumbria. Lancashire's share of the costs is £2.8m (£3.1m in 2016/17).

During the year the Constabulary and University of Central Lancashire (UCLAN) entered into a 10 year joint operation partnership agreement to create a Lancashire Forensic Academy based at Police Headquarters. During 2017/18 UCLAN contributed to the following:-

	<b>£000</b>
Rental of accommodation/facilities	191
Staff/student contact	333
Operating budget	43
Capital contribution towards building works/equipment	250
	<hr/>
	817
	<hr/>

The Constabulary contributed £0.250m capital to building works/equipment and £0.043m to the operating budget and the accounts reflect this contribution.

#### 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. Similarly any debtors, creditors and assets of the Lancashire Forensic Academy remain in the balance sheet of the PCC and Group.

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 was fully funded by a capital grant received from the Home Office. The premises were purchased in the name of and are owned by the PCC for Merseyside and the current value 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 £1.021m in 2017/18 (£1.211m in 2016/17).

#### **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.

#### **14. Defined Benefit Post- Employment Benefits**

##### **Accounting Policies**

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

- 1987 Police Pension Scheme for Police Officers;
- 2006 Police Pension Scheme for Police Officers;
- 2015 Police Pension Scheme for Police Officers;
- Local Government Pensions Scheme for Police Staff

The Police Pension Schemes are unfunded arrangements for uniformed police officers with 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 and is administered by Lancashire County Council. The LGPS is a contributory defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Public Service Pensions Act 2013). Teachers, police officers and fire-fighters are not included within the scheme as they come within other national pension schemes.

The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The 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 2016, and at that date showed a funding level of 90% (assets of £6.0bn against accrued liabilities of about £6.7bn). The weighted average duration of the liabilities of the Fund as a whole is 16 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.

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

All the schemes provide index linked defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the CC 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.org.uk](http://www.yourpensionservice.org.uk)

The Local Government Scheme and the Police Pension Schemes are accounted for as defined benefits 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 14% during 2017/18 along with a cash contribution of £2m towards the deficit, being the first of three annual payments (11.5% in 16/17 along with a cash contribution of £2.86m).

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 vary according to the duration of the employer's liability, with an average of 2.7% (2.6% in 2016/17), 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. The valuation at fair value has been classified into three levels according to quality and reliability of information used to determine fair values and in line with the fair value hierarchy. Further detail as to how it was determined which assets were included in each level can be found later in this note on Page 47.

### **Police Officers:**

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

As transitional arrangements are in place, some members will remain in the 1987 and 2006 Police Pension Scheme and, more significantly, the benefits members have accrued will be retained and hence the liabilities reported in the balance sheet will remain with the CC.

All the police officer schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the CC. The employers' contribution for each serving officer is common to both schemes (21.3% of pensionable pay from 1 April 2015). This is set nationally and is subject to review. A police pension account was set up on 1 April 2006 which administers all of the police pension schemes.

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating all three 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 all the schemes are attributable to the CC and 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 2.7% (2.5% in 2016/17), 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 2018 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 2018 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, 2006 and 2015 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 2017/18 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;

**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;

**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.

### **Lancashire County Pension Fund**

#### **Governance:**

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

#### **Funding the liabilities:**

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's investment strategy statement. The most recent valuation was carried out as at 31 March 2016, which showed a shortfall of assets against liabilities of £0.69 billion as at that date, equivalent to a funding level of 90%. The fund's employers are paying additional contributions over a period of 16 years in order to meet the shortfall. At the last valuation in 2013 the shortfall of assets against liabilities was £1.38bn equivalent to a funding level of 78% with 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 21 years, measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £8.7m contributions to the LGPS in 2018/19.

#### **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 risk**

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

**Other risks:**

Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the 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 scheme, including managing its cash flows. The requirement to set up Police Pension boards has resulted in the setting up of a North West Region Police Pension Board which is administered by the Constabulary. The Board comprises employer representatives as well as representatives of the individual scheme managers and carries out a variety of activities to assess governance arrangements.

#### **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 18 years in respect of the 1987 scheme, 33 years in respect of the 2006 scheme and 34 years in respect of the 2015 scheme (injury awards have a duration of 20 years), measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £79.4m contributions to the Police Schemes in 2018/19.

#### **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:

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	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>								
<b>Cost of Services:</b>								
<b>Service Cost comprising:</b>								
• Current service cost	15,499	9,840	64,652	37,279	4,566	2,974	84,717	50,093
• Curtailment costs	336	139	-	-	-	-	336	139
• Admin. expenses	239	233	-	-	-	-	239	233
<b>Financing and Investment Income and Expenditure:</b>								
• Net Interest expense	3,232	3,526	84,994	94,690	3,188	3,381	91,414	101,597
<b>Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES</b>	<b>19,306</b>	<b>13,738</b>	<b>149,646</b>	<b>131,969</b>	<b>7,754</b>	<b>6,355</b>	<b>176,706</b>	<b>152,062</b>
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:</b>								
<b>Re-measurement of the net defined benefit liability, comprising:</b>								
• Re-measurements (assets)	(3,185)	(42,581)	-	-	-	-	(3,185)	(42,581)
• Experience (gains)/losses on Liabilities	-	(33,466)	(269,248)	-	78,038	-	(191,210)	(33,466)
• Actuarial (gains)/losses arising on changes in demographic assumptions	-	(2,559)	(141,537)	-	(10,740)	-	(152,277)	(2,559)
• Actuarial (gains)/losses arising on changes in financial assumptions	(22,253)	101,179	(188,614)	640,700	(15,070)	27,268	(225,937)	769,147
<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(6,132)</b>	<b>36,311</b>	<b>(449,753)</b>	<b>772,669</b>	<b>59,982</b>	<b>33,623</b>	<b>(395,903)</b>	<b>842,603</b>
<b>Movement in Reserves Statement</b>								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(19,306)	(13,738)	(149,646)	(131,969)	(7,754)	(6,355)	(176,706)	(152,062)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>								
• Employers' contributions payable to scheme	9,115	8,584	76,709	80,399	-	-	85,824	88,983
• Retirement benefits paid to pensioners	-	-	-	-	2,651	2,758	2,651	2,758

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

	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	31 Mar 2018	31 Mar 2017	31 Mar 2018	31 Mar 2017	31 Mar 2018	31 Mar 2017	31 Mar 2018	31 Mar 2017
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Present Value of the defined benefit obligation</b>	448,177	448,392	2,911,438	3,437,900	186,158	128,827	<b>3,545,773</b>	<b>4,015,119</b>
<b>Fair value of plan assets</b>	(333,510)	(318,478)	-	-	-	-	<b>(333,510)</b>	<b>(318,478)</b>
<b>Net liability arising from defined benefit obligation</b>	<b>114,667</b>	<b>129,914</b>	<b>2,911,438</b>	<b>3,437,900</b>	<b>186,158</b>	<b>128,827</b>	<b>3,212,263</b>	<b>3,696,641</b>

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 £3,212.263m has a considerable impact on the net worth of the CC as recorded in the balance sheets, resulting in a net liability of £3,217.236m (including £4.973m 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:**

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>448,392</b>	<b>364,509</b>
Current Service Costs	15,499	9,840
Interest on pensions liabilities	11,587	13,046
Contributions by scheme participants	3,001	2,949
Actuarial gains –changes in demographic assumptions	-	(2,559)
Actuarial (gains)/losses –changes in financial assumptions	(22,253)	101,179
Experience gains on liabilities	-	(33,466)
Benefits paid	(8,385)	(7,245)
Past Service/Curtailment Costs	336	139
<b>31 March</b>	<b>448,177</b>	<b>448,392</b>

<b>Unfunded Liabilities</b>	<b>Police Pension Schemes</b>		<b>Injury Benefits</b>	
	<b>2017/18</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>3,437,900</b>	<b>2,745,630</b>	<b>128,827</b>	<b>97,962</b>
Current Service Costs	64,652	37,279	4,566	2,974
Interest on pensions liabilities	84,994	94,690	3,188	3,381
Contributions by scheme participants	14,182	14,087	-	-
Experience gains/(losses) on liabilities	(269,248)	-	78,038	-
Actuarial (gains)/losses –changes in financial assumptions	(188,614)	640,700	(15,070)	27,268
Actuarial gains –changes in demographic assumptions	(141,537)	-	(10,740)	
Benefits paid	(90,891)	(94,486)	(2,651)	(2,758)
<b>31 March</b>	<b>2,911,438</b>	<b>3,437,900</b>	<b>186,158</b>	<b>128,827</b>

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

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>318,478</b>	<b>262,322</b>
Interest on plan assets	8,355	9,520
Admin Expenses	(239)	(233)
Employer Contributions	9,115	8,584
Contributions by scheme participants	3,001	2,949
Re-measurements (assets)	3,185	42,581
Benefits paid	(8,385)	(7,245)
<b>31 March</b>	<b>333,510</b>	<b>318,478</b>

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Unfunded Schemes	Police Pension Schemes		Injury Benefits	
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
<b>1 April</b>	-	-	-	-
Employer Contributions	76,709	80,399	2,651	2,758
Contributions by scheme participants	14,182	14,087	-	-
Benefits paid	(90,891)	(94,486)	(2,651)	(2,758)
<b>31 March</b>	-	-	-	-

**Local Government Pension Scheme assets comprised:**

	Fair Value Input Level (if relevant)	31 March 2018 £000	31 March 2017 £000
<b>Cash and Cash Equivalents</b>		<b>(1,392)</b>	<b>3,322</b>
<b>Bonds</b>			
<u>By Sector</u>			
Corporate	1/2	5,861	5,230
Government	3	7,958	6,303
Overseas Fixed Interest	1	322	-
<b>Sub-Total Bonds</b>		<b>14,141</b>	<b>11,533</b>
<b>Property</b>			
<u>By Type</u>			
Retail	2	9,171	8,668
Commercial	2	22,193	19,387
<b>Sub-Total Property</b>		<b>31,364</b>	<b>28,055</b>
<b>Private Equity</b>			
UK	3	-	3,610
Overseas	3	24,209	16,886
<b>Sub-Total Private Equity</b>		<b>24,209</b>	<b>20,496</b>
<b>Other Investment Funds</b>			
Overseas Pooled Equity	1	148,179	140,793
Credit Funds	2/3	61,452	71,362
Infrastructure	3	42,264	38,427
Property	3	5,065	4,490
Pooled Fixed Income	1	8,228	-
<b>Sub-Total Other Investment Funds</b>		<b>265,188</b>	<b>255,072</b>
<b>TOTAL ASSETS</b>		<b>333,510</b>	<b>318,478</b>



## **Allocation into Fair Value Hierarchy**

### **Level 1**

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **Level 2**

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

### **Level 3**

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

## **Property Funds**

The properties were valued at open market value at 31 March 2018 by independent property valuers GVA Grimley Limited in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

## **Cash and cash equivalents**

Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**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:

<b>Local Government Pension Scheme</b>	<b>2017/18</b>	<b>2016/17</b>
Mortality assumptions:		
Longevity at 65 for current pensioners (LGPS):		
Men	22.7	22.6
Women	25.4	25.2
Longevity at 65 for future pensioners (LGPS):		
Men	25	24.9
Women	28	27.9
Rate of inflation: CPI	2.1%	2.3%
Rate of increase in salaries	3.6%	3.8%
Rate of increase in pensions	2.2%	2.3%
Rate for discounting scheme liabilities	2.7%	2.6%

	<b>Police Officers 1987 Scheme</b>		<b>Police Officers 2006 Scheme</b>		<b>Police Officers 2015 Scheme</b>		<b>Injury Awards</b>	
	<b>2017/18</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2016/17</b>
Longevity at 60 for current								
Men	27	28.4	27	28.4	27	28.4	24.5	25.8
Women	29	30.9	29	30.9	29	30.9	26.4	28.3
Longevity at 60 for future								
Men	29	30.8	29	30.8	29	30.8	26.3	28.1
Women	31	33.3	31	33.3	31	33.3	28.3	30.6
Rate of inflation: CPI	2.1%	2.3%	2.1%	2.3%	2.1%	2.3%	2.1%	2.3%
Rate of increase in salaries	3.6%	3.8%	3.6%	3.8%	n/a	n/a	3.6%	3.8%
Rate of increase in pensions	2.2%	2.3%	2.2%	2.3%	2.2%	2.3%	2.2%	2.3%
Rate of revaluation of CARE pensions	n/a	n/a	n/a	n/a	3.35%	3.55%	n/a	n/a
Rate for discounting scheme	2.7%	2.5%	2.7%	2.5%	2.7%	2.5%	2.6%	2.5%

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)	+8,575	-8,575
Rate of inflation (increase or decrease by 1%)	+95,010	-95,010
Rate for discounting scheme liabilities (increase or decrease by 1%)	-93,030	+93,030
Rate of increase in salaries (increase or decrease by 1%)	+20,070	-20,070

**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)	+75,952	-75,952	+4,913	-4,913
Rate of inflation (increase or decrease by 1%)	+578,530	-578,530	+44,410	-44,410
Rate for discounting scheme liabilities (increase or decrease by 1%)	-565,880	+565,880	-43,320	+43,320
Rate of increase in salaries (increase or decrease by 1%)	+92,570	-92,570	+28,080	-28,080

## 15. Expenditure on Publicity

The CC's CIES includes £0.720m (£0.644m in 2016/17) 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:

	2017/18	2016/17
	£000	£000
Publicity	707	640
Advertising -Recruitment	13	4
<b>Total Costs</b>	<b>720</b>	<b>644</b>

## 16. External Audit Costs

In 2017/18 the following fees are included in the CC's CIES relating to external audit.

	2017/18 £000	2016/17 £000
Fees payable to Grant Thornton, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the <i>Code of Audit Practice</i> prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act.	19	19
<b>Total Costs</b>	<b>19</b>	<b>19</b>

## 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. As at the authorised for issue date there was one contingent liabilities to disclose, as follows:

The Chief Constable of Lancashire, along with other Chief Constables and the Home Office, currently has 250 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015.

Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations and in 2016/17 these claims were heard in the Employment Tribunal. In 2017/18 the Judiciary and Firefighter claims were heard in the Appeal Tribunal. Subsequent to this the respondents are appealing against the Appeal Tribunal judgements. In the case of the Firefighters the claimants are also appealing against aspects of the judgement. The outcome of these further appeals may influence the outcome of the Police claims. The Tribunal has agreed to stay the Police hearing and the Home Office has requested that the stay is extended in light of the further appeals. In the event that the Police claims are successful it is unclear what remedy would be applied, whether this would require further legislation and who it would impact. Given the fact that the Judiciary and Firefighter claims are subject to further appeal and the Police claims are yet to be heard and the uncertainty regarding remedy and quantum at this point in time, it is not possible to provide an estimate of the financial effect in the event that the claims are partially or fully successful. Therefore it has been assessed that the Chief Constable has no liability at the Balance Sheet date.

## **OTHER SIGNIFICANT ACCOUNTING POLICIES**

### **i. General**

The Statement of Accounts summarises the CC's transactions for the 2017/18 financial year and the position at the year-end 31 March 2018. 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 2015.

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 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**

Overhead budgets are held as separate budgets and reported to management in the same way as operational budget with no ultimate re-apportionment across operating segments.

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POLICE PENSION ACCOUNT

**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 each of the 1987, the 2006 and the 2015 Police Pension Schemes.

POLICE PENSION ACCOUNT	NOTES	2017/18				2016/17			
		1987 scheme £000	2006 scheme £000	2015 scheme	Total £000	1987 scheme £000	2006 scheme £000	2015 scheme	Total £000
<b>Contributions receivable</b>									
Employer contributions at 21.3% of pensionable pay	3	(7,124)	(333)	(14,845)	(22,302)	(8,651)	(390)	(12,923)	(21,964)
Early Retirements		(1,798)	0	(69)	(1,867)	(2,277)	(69)	(73)	(2,419)
		<b>(8,922)</b>	<b>(333)</b>	<b>(14,914)</b>	<b>(24,169)</b>	<b>(10,928)</b>	<b>(459)</b>	<b>(12,996)</b>	<b>(24,383)</b>
Officer Contributions		(4,732)	(195)	(9,255)	(14,182)	(5,806)	(219)	(8,060)	(14,085)
<b>Total Contributions Receivable</b>		<b>(13,654)</b>	<b>(528)</b>	<b>(24,169)</b>	<b>(38,351)</b>	<b>(16,734)</b>	<b>(678)</b>	<b>(21,056)</b>	<b>(38,468)</b>
<b>Transfers In</b>		<b>(60)</b>	<b>(127)</b>	<b>(1,011)</b>	<b>(1,198)</b>	<b>(305)</b>	<b>(4)</b>	<b>(209)</b>	<b>(518)</b>
<b>Benefits Payable</b>									
Pensions		75,470	40	167	75,677	72,638	18	91	72,747
Commutations and lump sum retirement benefits		15,728	38	207	15,973	21,920	22	71	22,013
Lump sum death benefits		-	-	-	-	-	-	112	112
Other		-	-	-	-	-	-	-	-
<b>Total Benefits Payable</b>		<b>91,198</b>	<b>78</b>	<b>374</b>	<b>91,650</b>	<b>94,558</b>	<b>40</b>	<b>274</b>	<b>94,872</b>
<b>Payments on Account of Leavers</b>									
Transfer values out		362	27	-	389	110	-	-	110
Refund of contributions		-	-	51	51	3	-	16	19
<b>Total Payments on Account of Leavers</b>		<b>362</b>	<b>27</b>	<b>51</b>	<b>440</b>	<b>113</b>	<b>-</b>	<b>16</b>	<b>129</b>
<b>Net amount payable/(receivable) for the year contribution from Police Fund</b>		<b>77,846</b>	<b>(550)</b>	<b>(24,755)</b>	<b>52,541</b>	<b>77,632</b>	<b>(642)</b>	<b>(20,975)</b>	<b>56,015</b>
Contribution from the Police Fund not met by Home Office grant	2	(970)	(45)	(2,021)	(3,036)	(1,178)	(53)	(1,759)	(2,990)
Additional contrib. from the Police Fund met by Home Office grant		(76,876)	595	26,776	(49,505)	(76,454)	695	22,734	(53,025)
<b>Net amount payable/(receivable)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NET ASSET STATEMENT

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(346)	Unpaid pensions benefits	(384)
5,428	Payment in Advance	5,655
(5,082)	Amounts owed from/(to) PCC's General Fund	(5,271)
<b>-</b>	<b>Net Assets</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENT

### 1. Basis of preparation

The Police Pension Account combines the accounting transactions of three pension schemes; the 1987 Scheme, which was set up in 1987 and the 2006 Scheme which was created by the Home office under the Police Pension Regulations 2006 and the most recent 2015 Scheme, established under the Police Pension Regulations 2015 .

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2017/18. 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 CIES and balance sheets of the CC and the PCC Group.

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 56.

All the 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, prior to 2015/16 was financed in full by top-up grant from the Home Office.

### 2. Actuarial Valuation

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. This amount is shown separately in the Pensions Account.



3. **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 all the 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 2017/18 was set at 21.3% (16/17 was also 21.3%).

**Employees' Contributions**

Police officer contributions are deducted from officer salaries. Contribution rates range between 11% and 15.05% dependent upon on the range the police officer's salary falls into and whether the officer is a member of the 1987, 2006 or the 2015 scheme.

4. **Net Asset Statement**

The net asset statement does not include liability to pay pensions and other benefits after the 31 March 2018 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 14 to the main statement of accounts.

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

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of the Chief Constable for Lancashire (the 'Chief Constable') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies and include the police pension fund financial statements of Lancashire Pension Fund comprising the Fund Account, the Net Assets Statement and the notes to the financial statements. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Who we are reporting to**

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other information**

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Chief Constable obtained in the course of our work including that gained through work in relation to the Chief Constable's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable gained through our work in relation to the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

## **Responsibilities of the Chief Constable and the Chief Finance Officer for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 15, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC

code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Chief Constable lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Chief Constable.

The Chief Constable is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that 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 2018.

#### **Responsibilities of the Chief Constable**

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

### **Auditor's responsibilities for the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place

proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements – Certificate**

We certify that we have completed the audit of the financial statements of the Chief Constable in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

*Robin Baker*

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building  
LIVERPOOL, L3 1PS

20 July 2018

## Lancashire Constabulary Annual Governance Statement 2017 - 18



### 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 Consent/Delegation' 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.

A Code of Corporate Governance has been approved and adopted which also outlines how the Chief Constable and PCC 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

Governance is about how the Chief Constable and PCC ensure that they are doing the right things, in the right way, for the right outcomes, in a timely, inclusive, open, transparent and accountable manner. 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 based on an ongoing process 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 2018 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 six 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.
6. Engaging with local people and other 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 Purpose, Objective, and set of values. The Purpose is to keep people safe and feeling safe and when needed, we can be trusted to consistently deliver competent and compassionate service 24/7. The Constabulary has a commitment to its core policing services; Contact and Response, Local Policing and Serious Crime and Investigation and is underpinned by the expectation that officers and staff adhere to a set of values that are outlined in the Code of Ethics.

The overall assessment for the Constabulary in the PEEL (Police, Efficiency, Effectiveness and Legitimacy) Inspection of 2017 by Her Majesty's Inspectorate of Constabulary, Fire and Rescue Service (HMICFRS) was :-

*Lancashire Constabulary is judged to be good in the efficiency with which it keeps people safe and reduces crime. Our overall judgment this year is the same as last year. The Constabulary has maintained a good understanding of demand; its use of resources to manage demand is judged to be good; and its planning for future demand is also judged to be good.*

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. HMICFRS have consistently found, in their Valuing the Police (VtP) Inspection programme and the PEEL Inspections, that the Constabulary is well prepared to deal with financial challenges.

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 Constabulary works closely with the OPCC in taking forward key areas of business and joint monthly strategic planning meetings are held.

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.

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 May 2018.

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 at both team and individual officer level, 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 Audit and Ethics 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 Consent/Delegation.

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 and Continuous Professional Development (CPD) activities. A review will be undertaken in 2018/19 of the 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 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 and senior leads from other public sector agencies such as Fire and Rescue and North West Ambulance service, 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 Operations Board, Management Board 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.

In accordance with the requirements of the Financial Management Code of Practice, a Joint Audit and Ethics Committee has been established.

Code of Ethics training and awareness has been provided to all officers and staff and written into job application forms and statement of particulars.

**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 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'. The CC's Chief Finance Officer is the Director of Resources who 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 Office for Police Conduct (IOPC) (formerly 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, with an action plan to oversee the implementation of recommendations arising from HMICFRS inspections of integrity and legitimacy.

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 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. The PCC and Constabulary have also extended the remit of the Audit Committee to incorporate governance over ethical matters for both organisations. The Committee comprises an Independent chair and members to provide independent scrutiny and assurance over the ethics framework. This is supported by a Tactical Ethics Committee within the Constabulary, which considers and advises on ethical dilemmas.

The Constabulary has arrangements in place to address fraud and corruption and to enable officers and staff to report any issues of concern in confidence.

#### **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 Joint Audit and Ethics 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 Joint Audit and Ethics 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 HMICFRS 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.

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. These are published on the Constabulary's intranet sharepoint site.

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.

The Strategic Spend Board monitors levels of non-pay expenditure to ensure spend is contract compliant. The Board also considers any areas of non – compliance where procurement plans need to be put in place and endorses new procurement legislation and policies.

The Strategic Resourcing Board provides organisational direction to ensure the most efficient, effective, flexible and responsive use of officers and staff across the County The Board receives requests for changes to structures (outside the Futures Programme) and considers the impact of turnover of officers and staff alongside the restructuring required within the organisation and the impact this has on establishment levels.

The Constabulary change programme is overseen by the Futures Assurance Board with a bi monthly governance structure that considers risk management and benefits realisation with bespoke programme management attached to the change delivery.

Items outside of the delegated authority of the Chief Constable's CFO are submitted to the Joint Management Board (JMB) for approval by the PCC. In addition, and to strengthen the transparency of decision making, those items approved by the Constabulary's Director of Resources/ Head of Finance, Procurement & Transactional Services are reported to the PCC for information and 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 Joint Audit and Ethics Committee prior to approval by the Chief Constable and the PCC and publication in July.

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

The Head of Legal, who is also the Monitoring Officer, is part of the Strategic Management Group and is involved in key strategic decision making process which strengthens the scrutiny of decision-making.

## **5. Developing the capacity and capability of the workforce to be effective.**

Costed HR Plans are produced by the Constabulary each year which outline the workforce numbers of the organisation and its training provision; 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 Workforce Development 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 Professional Development Programme (PDR), which supports the management of performance and is introducing a new Continues Professional Development (CPD) process that will offer 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.

A HR Case Management process 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 recent further investment has been agreed for the Health Services function to ensure that the capacity, capability and condition of employees is maintained.

## **6. Engaging with local people and other stakeholders to ensure robust public accountability.**

In the PEEL Inspection of 2017 (Legitimacy element), HMICFRS also found:

*Lancashire Constabulary is judged to be good at how legitimately it keeps people safe and reduces crime. For the areas of legitimacy we looked at this year, our overall judgment is the same as last year. The constabulary is judged to be good at treating all of the people it serves with fairness and respect and ensuring that its workforce behaves ethically and lawfully but is judged to require improvement in some aspects of how it treats its workforce with fairness and respect.*

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, Facebook and Instagram.

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, through the external facing website which facilitated much greater self-service and access to information. This is being further enhanced to enable digital services such as tracking of crimes and uploading of digital evidence to take place.

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 place based 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, including the performance of teams at a local delivery level. The results are reported through the performance and scrutiny mechanisms outlined above.

Neighbourhood policing teams hold community engagement events to allow members of the community to voice concerns, highlight issues and influence priorities. The Constabulary is also delivering 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 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.

## Overall Assurance Summary

No system of internal control can provide absolute assurance against material misstatement or loss.

However, on the basis of the review of the sources of assurance set out in this Statement, we are satisfied that the Chief Constable has in place satisfactory systems of corporate governance and internal control which facilitate the effective exercise of their functions and which include arrangements for the effective management of risk.

The Constabulary have been audited in 2017/18 on both governance and risk management by Internal Audit and the following audit opinions were made;

*"We consider that the controls surrounding the production of the corporate risk register to be adequate to reflect key risks facing the Constabulary, and can therefore provide **substantial** assurance."*

*"We have completed a review of the processes and controls in place surrounding Constabulary decision making; including transparency, rationale and Board roles and responsibilities. Overall, we can provide **full** assurance. There is a sound system of internal control which is adequately designed to meet the service's objectives and is effective in that controls are being consistently applied."*

## 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 2017-2018 is considered to be both satisfactory and effective.**

## Ensuring Effective Governance of Organisational Risks

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

### 1. Financial Pressures

It is clear that the period of austerity will continue for a number of years and a total of more than £102m of savings are likely to be required over the period 2011/12 – 2021/22 of which £84m has already been identified.

The longer term financial position is reviewed on a regular basis and further savings of around £18m are currently forecast to be required for the period 2019/20 to 2021/22. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can

be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMICFRS and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.

There is also an expectation that a new funding formula will be introduced in the future which 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

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

## 2. 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 previously secured additional funding from the PCC of £1m to reduce the backlogs. However, the demand for further resources in this area is huge and has already been identified as a significant risk and will require capacity and capability building over the medium term to manage the risk. These elements have been developed through the Core Services Change Programme, ensuring the commitment to contact and response, local policing and serious crime and investigations during 2018/19. They are also being addressed through the development of the Force Digital Strategy.

The Government decision to allow "fracking" in Lancashire has already had an impact on the Constabulary's finances in 2016/17 and 2017/18 with a significant policing demand continuing into 2018/19. Whilst this places financial pressure on the Constabulary the impact on resources is also significant causing pressure in operational service delivery.

**Action to address :** The Constabulary's SMT receive monthly reports as part of the operational review of risk, threat and demand. The Constabulary is also placing significant emphasis in understanding its demand and dealing with it through a combination of preventative, early action measures and better partnership working across the public sector.

The PCC will continue to lobby support for additional special grant to offset costs of anti fracking protests.

**Chief Officer Lead:** Deputy Chief Constable

## 3. Staff Capacity , Capability and Condition

The Constabulary faces significant challenges arising from the continuing requirement to meet financial challenges and the demanding nature and complexity of police demand. The ability to ensure that employees have sufficient capacity, sufficient skills and good wellbeing is essential to ensure that the challenges which the organisation face can be met and that the organisation continues to deliver on the priorities set by the PCC and the Chief Constable.

**Action to address** : Specific focus has been placed on Organisational Development to ensure that the capacity and capability issues are identified and addressed and in terms of wellbeing additional investment has been agreed for Health Services which will assist with helping employees to better deal with health challenges. A Workforce Capabilities Board has also recently been established to provide oversight of strategic workforce capabilities to ensure the Constabulary is able to get the best out of its people and effectively develop the skills and capabilities it will need for the future. In addition a new PDR system will be in place during 2018/19

**Chief Officer Lead:** Deputy Chief Constable

## Summary

The Constabulary has been advised on the implications of the review of effectiveness of the governance framework by the Joint Audit and Ethics 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:

*Andy Rhodes*

.....  
**Chief Constable  
Andy Rhodes**

**Date : 20 July 2018**

*Ian L Cosh*

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

**Date : 20 July 2018**

## 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.

### **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.

### **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'.

### **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.

### **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 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.

**Curtailed 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.

**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.

**Non-cash adjustments**

Changes in debtors' and creditors' balances over the year.

**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.

**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.

**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.

**Specific grants**

Government grants for a particular service.