POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

STATEMENT OF ACCOUNTS

2019/20

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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 Chief Constable (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 CC's accounts can be found at the following link:

https://www.lancashire.police.uk/about-us/our-performance/statement-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. The governance framework can be found at the following link:

http://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 2019/20 (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 2019/20 Statement of Accounts is also 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 PCC and the PCC Group for the financial year ended on 31 March 2020 (referred to as 2019/20).

The various sections contained within the consolidated financial statements are:

> **Comprehensive Income and Expenditure Statements for the PCC and the PCC Group**
> These statements show the accounting cost in the year of the PCC and PCC Group providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement.

Movement in Reserves Statement for the PCC and the PCC Group - The statement shows the movement from the start of the year to the end on the different reserves held by the PCC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. This statement shows how the movements in year of the PCC's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments. During 2019/20 total reserves of the Group reduced by £109.77m (PCC increased by £6.98m): a reduction in usable reserves of £7.85m (PCC decreased by £7.85m) and a significant reduction in unusable reserves of £101.92m (PCC increased by £14.82m).

Balance Sheets for the PCC and the PCC Group– These statements show the value as at the balance sheet date of the assets and liabilities recognised by the PCC and the PCC Group. Net assets (assets less liabilities) are matched by the reserves held by the PCC.

Cash Flow Statements for the PCC and the PCC Group– These statements show the changes in cash and cash equivalents of the PCC during the reporting period. The statements show how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The statements show a decrease in cash and cash equivalents during 2019/20 from £35.7m at 31 March 2019 to £25.1m at 31 March 2020.

Auditor's Report – This sets out the opinion of the PCC's external auditor on whether the Accounts present a true and fair view of the financial position and operations of the PCC and the PCC Group for 2019/20.

Annual Governance Statement – This is a statement by the PCC which states his position on governance issues, and which provides assurances on the systems of control which are maintained and on the way he conducts his business.

As the PCC Group position presents the most meaningful picture, from a reader's perspective, of the activities of the PCC and the CC, where there is a separate statement or note for the PCC and the PCC Group the order of presentation will be the PCC Group followed by the single entity PCC statement or note.

Review of 2019/20

Holding the Chief Constable to Account

It is the role of the PCC to hold the Chief Constable to account for the work of the force delivering the policing priorities. The PCC has achieved this in 2019/20 as follows:

- Through several planned and ad hoc meetings during the year attended by the PCC himself, members of his office and members of the Constabulary workforce both at officer and staff officer level.
- Formal meetings include quarterly scrutiny meetings and joint management boards. The notes of the meetings and the reports tabled can be found on the PCC website at www.lancashire-pcc.gov.uk/meetings-and-decisions
- The PCC also holds regular one to one meetings with the Chief Constable for direct discussion on performance
- The PCC (and members of his office) sits on strategic working groups ensuring that the Police and Crime Plan priorities are reflected in day to day operational delivery of policing across the force.

Changes to Complaints

The Policing and Crime Act 2017 and supporting regulations made significant changes to the police complaints and disciplinary systems during 2019/20. A number of changes were introduced designed to achieve a more customer-focused complaints system.

The changes allow for certain types of complaints to be resolved outside the requirements of the Police Reform Act 2002 while those that have been recorded may be handled reasonably and proportionately otherwise than by investigation.

Where appeals were previously handled by either the chief constable or the Independent Office for Police Conduct (IOPC), the new right to apply for a review is to the PCC himself or the IOPC. This change aimed to increase independence and transparency.

Prior to 1 February 2020, the PCC dealt with **7 complaints** (14 allegations) against the Chief Constable – of the 7 complaints, 2 appealed the decision to the Independent Office for Police Conduct but neither were upheld.

Since the 1 February 2020 the PCC dealt with **5 complaints** (8 allegations) against the Chief Constable with no appeals received from the Independent Office for Police Conduct.

The PCC has received **8 review requests** in relation to complaints made against police officers following changes to the police complaints process on the 1 February 2020.

During 2019/20 the PCC has

- Engaged in **4 Police and Crime Panel meetings** where members scrutinised and supported the work of the PCC
- Made formal **59 decisions** and published them
- Dealt with **15 complaints (28 allegations) against the Chief Constable –** none of which were upheld
- Held **3 Strategic Business Meetings** giving the opportunity to discuss matters of immediate concern, trends in performance and incidence of crime that may impact on priorities included in the Police and Crime Plan, strategic finance and policing matters
- Held **7 one-to-one meetings with the Chief Constable**
- Held **4** formal **Scrutiny meetings** giving an opportunity to challenge and question the Chief Constable and his Officers
- Held **4 Joint Audit and Ethics Committee** (JAEC) meetings focusing on governance and risk management

Stop and Search

Through independent oversight, the **Stop & Search Scrutiny Panel** ensures stop and search is being used in an appropriate manner and enables the PCC to hold the Chief Constable to account.

The Office of the PCC is responsible for running the county's 'Stop and Search Ride Along Scheme' which gives members of the public the opportunity to accompany officers on routine patrol and, if appropriate and proportionate, observe the use of stop and search powers in action.

The ride alongs, which meets requirements around ensuring the best use of stop and search from Government, sees members of the public report back to the Stop and Search Scrutiny Panel, around what they see and experience whilst shadowing the work of officers.

There was a **50% increase in the use of stop and search during 2019** when compared to the previous year. This follows the surge activity as part of the work to tackle knife crime.

Independent Custody Visitors

Independent custody visitors (ICVs) are the eyes and ears of the public and provide reassurance that all is as it should be in police custody. They help the PCC to fulfil his statutory role to hold the Chief Constable to account and provide accessibility, visibility and accountability of Lancashire Constabulary.

The PCC oversees an established and effective Independent Custody Visiting (ICV) Scheme. The Scheme has up to **40** dedicated volunteers who visit the detainees in each of the six police custody centres in Lancashire: Greenbank (Blackburn), Burnley, Skelmersdale, Preston, Blackpool and Lancaster.

Due to some custody closures for refurbishment in year there has been a slight decrease in the number of detained persons who accepted visits from the ICVs in 2019/20, in comparison to 2018/19, with a total of **217 unannounced checks** and **641 interviews** carried out by our Independent Custody Visitors (ICVs) compared with 743 the year before.

Delivering the Police and Crime Plan priorities

The priorities contained within the Police and Crime Plan for Lancashire are based on extensive engagement with stakeholders, residents and Constabulary that took place in the first few months of the PCC's administration. They have been constantly examined since through regular engagement by the PCC, his office and through specialist research to ensure they remain relevant and appropriate.

The four priorities are:

- Protecting local policing
- Tackling crime and re-offending
- Supporting vulnerable people and victims
- Developing safe and confident communities

The performance of the PCC against these priorities is reported in the PCC's Annual Report.

A summary of this performance is given below.

Priority - Protecting Local Policing

Achieved by:

- Following a public consultation, support was given to increase the policing part of the Council Tax for 2019/20 by £24 a year per Band D property. This decision was supported and endorsed by the Police & Crime Panel. This enabled the PCC to invest in 100 police officers and specialist staff to strengthen local policing and investigation.
    - Through this increase to council tax, £3m was invested into a Neighbourhood Task Force. The taskforce is split into proactive teams of four or five officers spread across nine areas in the county, with the responsibility for tackling local priorities including drug dealing, anti-social behaviour and burglary, alongside disrupting organised crime group activity and targeting outstanding offenders.
    - The PCC also invested in Specialist target teams to tackle cross border crime and criminality, focusing on burglary and robbery and there has been an uplift in detectives following public feedback to prioritise investigations around major crimes, child exploitation and domestic abuse.

- In 2019/20 a new drone team became operational across the force, with two drones costing £90,000 paid for by the proceeds of crime, and a team of four officers costing £280,000 funded by the council tax precept. This new technology has been invaluable supporting policing operations including events, missing people and warrants. It has also meant savings of £240,000 due to the reduced requirement for the deployment of police helicopters.
- Following the Prime Minister’s announcement to recruit an extra 20,000 officers across the country Lancashire received funding for the recruitment of 153 police officers by March 2021. The initial target for 2019/20 has been exceeded by the recruitment of 66 additional police officers during the year.
- The fracking protest in Lancashire ended in 2019/20 and a final grant payment of £1.271m was received from the government towards the cost of the operation.
- In a 2018/19 report, published in February 2020, Lancashire Constabulary was rated as outstanding for efficiency following an inspection by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS).
- £1.9m has been invested in Samsung devices allowing officers to spend much more time out in our communities.
- Lancashire placed 36th on the Stonewall 2019 Top 100 Employers list in 2019/20, an improvement of 38 places since the previous year
- Maintaining pressure on the Government to ensure fairer funding of the police which reflect the change in demands and increased pressure as a result of cuts to partner services.
- Investment in the Constabulary's Contact Management Centre continues to address the growing number of calls into the service and increasing length of call-times due to the complexity of issues from the public.
- Maintaining the budget commitment for Police Community Support Officers (PCSOs) to minimise the impact of partner reductions for community safety work and promote visibility within communities across Lancashire.

Priority – Tackling crime and reoffending

Achieved by:

- Lancashire was one of 18 areas across the country to secure funding from the Home Office to meet issues with violent crime. £1.82m was received from the Knife Crime Fund and £1.16m for the setting up and running of a Violence Reduction Network (VRN). The Violence Reduction Network is a long-term initiative which will bring together Lancashire Constabulary, councils, health and education professionals, community leaders and other key partners to tackle violent crime.
- £3m has been invested in digital technology to aid investigations and solve crime through maximising evidential opportunities from the growing demand for digital forensic examination.
- Investment in local task forces is tackling major crimes such as organised crime groups (OCGs) and child exploitation.
- During 2019/20 more than £240k was awarded to a wide variety of projects delivering a range of services from diversionary activity through to peer and professional support. The projects utilise local knowledge and the expertise of various community organisations who are already delivering great work, to help ex-offenders ensure they do not go back into the criminal justice system.
- PCC continues to invest in rural crime with 103 officers having had rural and wildlife training and the purchase of thermal imaging scopes to assist the teams on the ground.
- Training for police officers and partner agencies in areas of serious crime such as Cybercrime, human trafficking and modern slavery. This action helps such activity to be recognised and detected and therefore reduced.

- Investment in substance misuse programmes across the county to support users through peer and mentor support with £265,000 invested in such programmes in 2019/20.

Priority –Supporting Vulnerable People and Victims

Achieved by:

- The victim's support service in Lancashire ("Victim Services") has received 67,117 referrals for support in 2019/20.
    - More than 14,000 victims of crime have spoken with the service and almost 6,500 have received support.
    - The development of the 'live chat' service offering on-line support to victims of crime
    - 25% of the referrals received (16,556) related to domestic abuse and the support offered to these victims has been developed significantly during 2019/20
    - In May 2019 the PCC supported the launch of a new programme to accredit business in Lancashire as Victim Friendly Organisations offering the opportunity for organisations to train their staff on the impact of crime on individuals.
- The continuation of a project that places specialist sexual violence support in health settings to ensure that any disclosures to health staff can be dealt with at the earliest opportunity and that victims can access the right support from specialist services
- Our Children and Young People's service, Nest received unprecedented demand with almost 5,500 referrals into the service for young people who had been the victim or witness of a crime. A significant proportion of these are young people who have witnessed domestic abuse and needed support to understand how to keep themselves safe and manage their feelings and emotions around this.
- Supporting Lancashire Constabulary's restorative justice programme that encourages engagement between the victim and the perpetrator of a crime to resolve issues for the victim and also educate the offender in a way that discourages reoffending.

Priority – Developing Safe and Confident Communities

Achieved by:

- **"Our Lancashire"** was launched In November 2019 designed to help the county's residents to start and join their own community groups in an effort to bring people together through shared interests and passions and make Lancashire a better place. By the end of the year more than 800 groups have signed up.
    - The development of a new volunteer role the **'Community Champion'**. This is a uniformed role in the heart of the community linked directly to Parish Councils. The volunteers are fully trained, provide a visible presence and ready to assist people wherever possible. Pilots in Chorley and West Lancashire have identified positive learning and we are continuing to develop the role and roll it out along with our new Our Lancashire programme
- Awarding more than £80,000 of grants through the Community Action Fund to small organisations working to keep their communities safe.
- Supporting Lancashire Road Safety partnership in delivering road safety awareness programmes to over 10,000 16-18 year olds as well as the roll-out of average speed cameras on the County's most dangerous roads.

- Delivering economic and social benefits back into Lancashire via the shared Social Value Policy with Lancashire Constabulary which covers over £40m of annual spend by the police. This involves working alongside the Constabulary to ensure that any procurement or commissioning activity carried out maximises the social, economic and environmental benefit for Lancashire while still delivering value for money.
- Awarding almost £135,000 to a number of Community Safety grants to the Community Safety Partnerships within Lancashire during the financial year 2019/20
- Developing and establishing the Lancashire Volunteer Partnership (LVP) with top tier council partners, drawing together a cohort of over 4,000 volunteers across Lancashire.
- Both the LVP and Our Lancashire have been vital in supporting the delivery of response in the Covid pandemic

Financial performance of the Group

Revenue Budget

The PCC for Lancashire's spending power in respect of 2019/20 was agreed at £289.563m and, after taking account of specific grants, the net budget requirement was set in February 2019 at £286.085m funded as follows:

	£m	
Police grant	193.745	68%
Funding for Additional Pension Contributions	3.104	1%
Council Tax	89.236	31%
	286.085	

Funding received from central government in 2019/20 increased from £190.024m in 2018/19 to £193.745m in 2019/20, an increase of £3.721m. This increase was provided to meet the increased burden of a change to the pension contribution rate applied to police officer costs alongside a specific grant of £3.104m. In Lancashire this cost increased by £7.1m.

The Commissioner raised £89.236m from council tax in 2019/20 made up as follows:

	£m
Council tax precept 2019/20	88.263
Council Tax surplus 2018/19	0.973
	89.236

This represents £201.45 for each Band D property in the County, an increase of £24 (13.5%) over the 2018/19 charge.

The 2019/20 Revenue Outturn

The 2019/20 revenue budget for the PCC was set at £286.085m in February 2019. The year-end position shows spending of £287.269m giving an overspend of £1.190m (0.4%).

The table below sets out a summary position for the budget:

Position as at 31 March 2020				
	Budget	**Spend**	**Variance**	
	£m	**£m**	**£m**	**%**
Chief Constable:				
Staff costs	219.676	218.089	-1.587	-0.7
ACC Territorial Operations	11.576	13.175	1.599	13.8
ACC Specialist Operations	3.264	4.142	0.878	26.9
Deputy Chief Constable	0.761	0.727	-0.034	-4.5
Director of Resources	23.168	23.343	0.175	0.7
Sub total	258.445	259.476	1.031	4.0
Non-DFM budget	20.311	20.674	0.363	1.8
Total Constabulary Budget	**278.756**	**280.150**	**1.394**	**0.5**
PCC:				
Office of the PCC	1.361	1.290	-0.071	-5.6
Communications	0.120	0.097	-0.023	-19.2
Reducing Crime and Reoffending	0.812	0.787	-0.025	-3.1
Community Safety	0.989	0.977	-0.012	-1.2
Victim and Domestic Abuse services	0.224	0.226	0.002	0.9
Sub total	3.506	3.377	-0.129	-3.8
Non-DFM	3.823	3.748	-0.075	-2.0
Total PCC	**7.329**	**7.125**	**-0.204**	**-2.8**
TOTAL BUDGET	**286.085**	**287.275**	**1.190**	**0.4**

The detailed year-end report is on the PCC website https://www.lancashire-pcc.gov.uk/meetings-and-decisions/decisions/

The year-end position reflects the cost of the anti-fracking protests delivered through Operation Manilla which ended in 2019/20.'Additional' costs of £1.495m have been incurred, of which £1.271m has been funded by special government grant. The remaining £0.224m has been met from the Operational Policing Reserve.

The year-end position is an overspend of £1.184m made up of a number of pressures and savings, the main elements of the position are:

Over/(Under) spend	Reason
(£1.587m)	Underspend on costs of pay due, in the main, to vacancies and staff turnover
£2.023m	Overspend on overtime which has affected all areas of operation
£0.953m	Overspend for Operation Bermuda – major investigation that remains in place in 2020/21
(£0.829m)	Saving on costs of ill-health retirements due to lower than budget number of cases
£0.917m	Overspend on costs of organisational change. The main element is £0.821m for cost of disestablishment of services following review.

The PCC has agreed to meet the overspend position by taking a contribution of £0.821m from the transition reserve to meet the costs of change incurred in 2019/20 and a reduction to the General Fund of £0.363m.

2019/20 year-end position for reserves

The general reserves (DFM and general fund) as at 31 March 2020 are £10.071m and represent around 3.3% of the 2020/21 budget of £302.192m. Other earmarked reserves total £12.502m including £7.149m held in the transition reserve to provide investment for the PCC's capital programme in 2020/21 and future years.

The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the "Futures" programme and the potential reductions in funding and increasing cost pressures forecast for future years. In particular, the level of general reserves is considered sufficient to meet any unexpected or unusual financial issues during the financial year 2020/21.

Further detail on movement in reserves can be found in the movement in reserves statement and in Notes 8 and 9 to the accounts.

Capital Funding

The 2019/20 Capital Programme was finalised for the year at £16.873m. A total of £12.625m was spent against this budget, £4.248m less than planned. Slippage of £4.249m has been carried forward to 2020/21 to enable the schemes to be completed. After allowing for depreciation, impairment and the disposal of assets, the value of long-term assets held at 31 March 2020 is estimated at £210.8m

The major areas of capital spending during 2019/20 were:

<u>I.T. Strategy</u>

- £1.144m Network Access and Security
- £2.451m Device upgrade and replacement
- £3.325m System replacement

<u>Accommodation Strategy</u>

- £0.220m Development of HQ site
- £0.385m Skelmersdale Station refurbishment
- £0.419m Pendle briefing base
- £0.311m Minor works programme

<u>Vehicle Replacement Programme</u>

- £3.140m Vehicle replacement programme 19/20

<u>Other Schemes</u>

- £0.311m Replacement of specialist equipment
- £0.056m Speed camera replacement on behalf of Lancashire Road Safety Partnership
- £0.177m ANPR equipment and infrastructure
- £0.444m Control room upgrade

The 2019/20 capital expenditure was financed through a mix of grant, revenue contributions and borrowing, as follows:

	£m
Financing	
Capital Grant/Contribution	1.920
Revenue Resources	2.312
Revenue Reserves	6.812
Borrowing	1.581
TOTAL FINANCING 2019/20	**12.625**

The capital expenditure is partially funded from borrowing The PCC needs to pay the cost of this borrowing out of his own resources and therefore must ensure such borrowing is prudent, sustainable and affordable in the long run. The borrowing is met by a mixture of long and short-term loans and the use internal cash balances. All the long-term loans have been taken with the PWLB and are taken in line with long term need. The borrowing strategy is outlined in the 2019/20 Treasury Management Strategy, a copy of which can be found on the PCC's website at the following link:

https://www.lancashire-pcc.gov.uk/our-money/financial-strategy/

The PCC maintains a rolling five-year capital forecast and resources are set aside to finance future capital expenditure. As at 31 March 2020 the PCC has set aside £7.149m in earmarked reserves to support capital expenditure.

Investing for the future

In order to preserve the operational integrity and capability of the force in future years, whilst delivering the savings required, the PCC must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the PCC in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets such as buildings, infrastructure, IT networks, IT equipment and staff are used, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies have identified several projects that will ensure frontline policing is protected and made as efficient as possible in future years. These projects have been brought into the PCC's capital programme for 2020/21 and future years and include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way
- Replacement of IT equipment to enable front line officers to operate as efficiently and productively as possible
- Reconfiguration of the accommodation used by the Constabulary in order to ensure it is used as efficiently and cost effectively as possible
- The programmed replacement of vehicles to ensure the fleet available to the Constabulary provides the most effective support for the delivery of policing service in Lancashire

This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the PCC can provide policing services in Lancashire within the resources he has available.

The Commissioner's Reserves Strategy is reviewed each year considering the level of general reserves and the level of earmarked reserves available for investment in the capital programme.

This process ensures that all future investment decisions are considered against the resources available for investment each year and this in turn informs the Medium-Term Financial Strategy and the setting of the annual revenue budget.

Police Pension Account

The police pension account administers all the police pension schemes (the 1987, 2006 and the new 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2018/19 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.

From 1 April 2019 the actuarial valuation changed the employer contribution rate from 24.2% to 31%. The amount of additional contribution required from the PCC in 2019/20 was £51m (£60m in 2018/19) financed from Home Office grant and the additional funding given to Policing authorities to cover the costs of the additional employer contributions.

Pension Liabilities

Pension costs are reported in line with International Accounting Standard 19 (IAS19). The pensions' liabilities shown on the PCC Group balance sheet reflect the underlying commitment that the PCC has in the long term to fund retirement benefits. Although recognition of these liabilities has a considerable impact on the net worth of the PCC Group, statutory arrangements for funding the deficit mean that the financial position of the PCC Group remains healthy.

At 31 March 2020 the net pensions' liability of the PCC Group, calculated by the actuary, is £3,795m, (an increase of £117m over the previous year's figure of £3,678m). The net liability is split between the Local Government Pension Scheme (£146m) and the Police Pension Schemes (£3,649m) the police schemes are unfunded, i.e. no investments or other assets exist to offset future liabilities

The share of the net pensions' liability relating to the PCC's office as at 31 March 2020 is £1.5m (£1.4m at 31 March 2019).

Other elements affecting the change in liability are shown in detail in Note 28 to the accounts.

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.

This has been recognised by HMICFRS who awarded Lancashire an 'outstanding rating' for its use of resources in February 2020 which clearly demonstrates that the PCC and Chief constable have a clear focus on delivering value for money throughout the organisation.

The longer-term financial position is reviewed on a regular basis based on best estimates of the likely level of cost pressures, grant income and council tax receipts. However, the lack of multi-year funding settlements makes this difficult to estimate with precision and presents a significant risk. Based on this environment and further savings of c £28m are currently forecast to be required for the period to 2023/24. 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 2020/21 and future years remains uncertain.

Specific Risks include:

- ***National 'Uplift' programme***

The government has provided the first year's funding for the national programme to deliver an additional 20,000 officers by 2023. The funding for years two and three of the programme have yet to be confirmed.

PCCs have alerted the government to the risk to the delivery of this programme if funding for the baseline service is not provided, specifically the provision of funding for the costs of pay award and inflation for the current cohort of staff across forces. If these costs are not funded in full, the ability to deliver the additional officers is significantly affected.

- ***Financial Settlement for 2021/22***

The impact of Covid 19 on the wider economy will in turn affect the government's ability to fund public services. The framework for the Settlement for 2021/22 has not been announced but there is potential for significant financial pressure to be exerted on all public sector organisations

- ***Impact of Comprehensive Spending Review (CSR 2020)***

The timing of the next CSR has yet to be confirmed. It will reflect the economic impact of Covid 19, which in turn could have an impact on government funding for a number of years. The impact for Lancashire is extremely uncertain and clearly affects future financial planning.

- ***Emergency Services Network (ESN) - Replacement of Airwave***

The emergency services communications network ‘Airwave’ programme has 'slipped' even further. There is a growing financial consequence of a delay in moving over to the new network that is not yet clear. There is also a separate capital requirement that will be required to operate on the new system that will impact upon future years' capital programme. The financial impact of these is not yet known and an estimated impact is reflected in the capital investment programme based upon the best information currently available. When further information is received from the Home office, the MTFS and the capital programme will be amended accordingly.

- ***Changing nature of Police demand***

The demand on police services is changing with a reduction in traditional high-volume crimes. However, as recognised 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. 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.

Steve Freeman

Steve Freeman CPFA
CFO to the Police and Crime
Commissioner for Lancashire

14 December 2020

STATEMENT OF RESPONSIBILITIES

The Police and Crime Commissioner's Responsibilities

The Police and Crime Commissioner is required to:

- make arrangements for the proper administration of the financial affairs of the Office of the Police and Crime Commissioner and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that officer is the chief financial officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The PCC will formally approve the Statement of Accounts once they have been fully audited.

Clive Grunshaw

CLIVE GRUNSHAW
Police and Crime Commissioner for Lancashire

14 December 2020

The Chief Financial Officer's Responsibilities

The Police and Crime Commissioner's Chief Financial Officer is responsible for the preparation of the Statement of Accounts of the Police and Crime Commissioner (PCC) and the PCC Group 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 PCC's CFO 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 PCC's CFO 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 Police and Crime Commissioner for Lancashire (PCC) and the PCC Group and their transactions as at 31 March 2020 and for the year then ended.

Steve Freeman

STEVE FREEMAN CPFA
CFO to the Police and Crime Commissioner for Lancashire

14 December 2020

PCC GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement

2018/19 (restated)				2019/20		
Gross Exp £000	**Gross Inc £000**	**Net Exp £000**		**Gross Exp £000**	**Gross Inc £000**	**Net Exp £000**
			Chief Constable:			
234,081	-	**234,081**	Centralised Pay Budgets	257,503	-	**257,503**
21,374	(1,597)	**19,777**	Director of Resources*	27,186	(3,430)	**23,756**
18,808	(2,082)	**16,726**	ACC-Territorial Ops. *	15,169	(1,988)	**13,181**
3,947	(701)	**3,246**	ACC-Specialist Ops. *	4,799	(713)	**4,086**
2,085	(945)	**1,140**	Deputy Chief Constable*	1,743	(1,187)	**556**
243,599	(17,246)	**226,353**	Constabulary Non-Devolved budgets*	61,251	(17,892)	**43,359**
			PCC:			
1,551	-	**1,551**	Office of the PCC	1,689	(342)	**1,349**
760	(3)	**757**	Community Safety & Partnerships	675	-	**675**
915	(3)	**912**	Reducing Crime & Reoffending	784	(19)	**765**
2,679	(2,482)	**197**	Victims and Witnesses	2,733	(2,556)	**177**
15,099	(125)	**14,974**	PCC Non-Devolved budgets*	14,813	(117)	**14,696**
544,898	**(25,184)**	**519,714**	**Net Cost of Services**	**388,345**	**(28,244)**	**360,101**
		(57,715)	Other operating Income & expenditure (Note 11)			**(54,015)**
		86,161	Financing & investment income & expenditure (Note 12)			**91,752**
		(268,838)	Taxation & non-specific grant income (Note 13)			**(284,672)**
		279,322	**(Surplus)/Deficit on Provision of Services**			**113,166**
		(724)	(Surplus)/deficit on revaluation of property, plant & equipment assets			**(18,450)**
		197,521	Re-measurements of pension assets/liabilities			**15,060**
		196,797	**Other Comprehensive (Income) & Expenditure**			**(3,390)**
		476,119	**Total Comprehensive (Income) & Expenditure**			**109,776**

*****_The areas of responsibility covered by these budget holders changed from 1 December 2019. The revised responsibilities are listed below, and the 2018/19 analysis has been restated for comparability (see Note 4):_

Director of Resources	*Estates, Fleet & Facilities Management, Finance, Procurement & Transactional Services, ICT, Legal, HR*
ACC-Territorial Ops.	*West, South, East, Specialist Operations, Contact Management, Corporate Communications*
ACC-Specialist Ops.	*Local Investigations, Serious Crime*
DCC	*Custody, Professional Standards, Corporate Development, Organisation Development, L&D*
CC Non-Devolved	*Includes collaboration, injury pensions, grant funded projects and other miscellaneous items*
PCC-Non-devolved	*In the main relates to revaluation gains/losses on the assets owned by the PCC which are used to provide the police and crime services to the public*

PCC COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices for the Office of the PCC, rather than the amount to be funded from taxation.

2018/19 Gross Exp £000	2018/19 Gross Inc £000	2018/19 Net Exp £000		2019/20 Gross Exp £000	2019/20 PCC Gross Inc £000	2019/20 Net Exp £000
1,541	-	**1,541**	Office of the PCC	1,524	(342)	**1,182**
746	(3)	**743**	Community Safety & Partnerships	634	-	**634**
843	(3)	**840**	Reducing Crime & Reoffending	755	(19)	**736**
2,679	(2,482)	**197**	Victims and Witnesses	2,732	(2,556)	**176**
805	(125)	**680**	PCC Non-Devolved budgets	403	(117)	**286**
356,259	-	**356,259**	Funding provided by PCC to CC (Note 16)	371,342	-	**371,342**
-	(22,571)	**(22,571)**	Income managed within Constabulary budgets	-	(25,210)	**(25,210)**
362,873	**(25,184)**	**337,689**	**Net Cost of Services**	**377,390**	**(28,244)**	**349,146**
		(57,715)	Other operating Income & expenditure (Note 11)			**(54,015)**
		782	Financing & investment income & expenditure (Note 12)			**1,101**
		(268,838)	Taxation & non-specific grant income (Note 13)			**(284,672)**
		11,918	**(Surplus)/Deficit on Provision of Services**			**11,560**
		(724)	(Surplus)/deficit on revaluation of property, plant & equipment assets			**(18,450)**
		(55)	Re-measurements of PCC pension assets/liabilities			**(81)**
		(779|	**Other Comprehensive (Income) & Expenditure**			**(18,531)**
		11,139	**Total Comprehensive (Income) & Expenditure**			**(6,971)**

PCC GROUP MOVEMENT IN RESERVES STATEMENT 2018/19 & 2019/20

This statement shows the movement in the year on the different reserves held by the PCC Group, analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC Group's services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC Group.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
Balance at 31 March 2018		**37,949**	**233**	**765**	**38,947**	**(3,080,004)**	**(3,041,057)**
Movement in reserves during 2018/19:							
Total Comprehensive Income & (Expenditure)		**(279,322)**			**(279,322)**	**(196,797)**	**(476,119)**
Adjs between accounting basis & funding basis under regulations	8	**271,744**	**383**	**(591)**	**271,536**	**(271,536)**	**-**
Net Increase/(Decrease) in 2018/19		**(7,578)**	**383**	**(591)**	**(7,786)**	**(468,333)**	**(476,119)**
Balance at 31 March 2019		**30,371**	**616**	**174**	**31,161**	**(3,548,337)**	**(3,517,176)**
Movement in reserves during 2019/20:							
Total Comprehensive Income & (Expenditure)		**(113,166)**	**-**	**-**	**(113,166)**	**3,390**	**(109,776)**
Adjs between accounting basis & funding basis under regulations	8	**105,362**	**127**	**(174)**	**105,315**	**(105,315)**	**-**
Net Increase/(Decrease) in 2019/20		**(7,804)**	**127**	**(174)**	**(7,851)**	**(101,925)**	**(109,776)**
Balance at 31 March 2020		**22,567**	**743**	**-**	**23,310**	**(3,650,262)**	**(3,626,952)**

NOTE: The General Fund Balance is held by the PCC in reserves that are earmarked for specific purposes or in a general reserve, as follows:

	Earmarked £000	General £000	Total £000
31 March 2020	12,502	10,065	22,567
31 March 2019	20,196	10,175	30,371
31 March 2018	26,167	11,782	37,949

PCC SINGLE ENTITY MOVEMENT IN RESERVES STATEMENT 2018/19 and 2019/20

This statement shows the movement in the year on the different reserves held by the PCC analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The Net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
Balance at 31 March 2018		**37,949**	**233**	**765**	**38,947**	**137,231**	**176,178**
Movement in reserves during 2018/19:							
Total Comprehensive Income & (Expenditure)		**(11,918)**	**-**	**-**	**(11,918)**	**779**	**(11,139)**
Adjs between accounting basis & funding basis under regulations	8	**4,340**	**383**	**(591)**	**4,132**	**(4,132)**	**-**
Net Increase/(Decrease) in 2018/19		**(7,578)**	**383**	**(591)**	**(7,786)**	**(3,353)**	**(11,139)**
Balance at 31 March 2019		**30,371**	**616**	**174**	**31,161**	**133,878**	**165,039**
Movement in reserves during 2019/20:							
Total Comprehensive Income & (Expenditure)		**(11,560)**	**-**	**-**	**(11,560)**	**18,532**	**6,972**
Adjs between accounting basis & funding basis under regulations	8	**3,756**	**127**	**(174)**	**3,709**	**(3,709)**	**-**
Net Increase/(Decrease) in 2019/20		**(7,804)**	**127**	**(174)**	**(7,851)**	**14,823**	**6,978**
Balance at 31 March 2020		**22,567**	**743**	**-**	**23,310**	**148,701**	**172,011**

PCC GROUP BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC Group. The net assets (assets less liabilities) are matched by the reserves held by the Group.

31 March 2019		Notes	31 March 2020
£000			**£000**
191,921	Property, Plant & Equipment	18	208,519
534	Investment Property		534
2,929	Intangible Assets		1,786
195,384	**Long Term Assets**		**210,839**
-	Assets Held for Sale		
1,328	Inventories		1,103
23,386	Short Term Debtors	20	25,278
35,675	Cash and Cash Equivalents	22	25,090
3,319	Payments in Advance		2,928
63,708	**Current Assets**		**54,399**
(27,100)	Short Term Borrowing	27	(20,493)
(27,955)	Short Term Creditors	21	(30,578)
(1,571)	Short-Term Provisions		(1,560)
(674)	Receipts in Advance		(376)
(57,300)	**Current Liabilities**		**(53,007)**
(824)	Long-Term Provisions		(1,556)
(39,854)	Long Term Borrowing	27	(42,518)
-	Long Term Creditors –General		-
(3,678,291)	Pensions' Liability	28	(3,795,110)
(3,718,969)	**Long Term Liabilities**		**(3,839,184)**
(3,517,177)	**Net Assets**		**(3,626,953)**
31,160	Usable Reserves		23,309
(3,548,337)	Unusable Reserves	10	(3,650,262)
(3,517,177)	**Total Reserves**		**(3,626,953)**

PCC SINGLE ENTITY BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC as a single entity. The net assets (assets less liabilities) are matched by the reserves held by the PCC.

31 March 2019		Notes	31 March 2020
£000			
191,921	Property, Plant & Equipment	18	208,519
534	Investment Property		534
2,929	Intangible Assets		1,786
195,384	**Long Term Assets**		**210,839**
-	Assets Held for Sale		
1,328	Inventories		1,103
23,386	Short Term Debtors	20	25,278
35,675	Cash and Cash Equivalents	22	25,090
3,319	Payments in Advance		2,928
63,708	**Current Assets**		**54,399**
(27,100)	Short Term Borrowing	27	(20,493)
(22,633)	Short Term Creditors	21	(25,233)
(1,571)	Short-Term Provisions		(1,560)
(674)	Receipts in Advance		(376)
(51,978)	**Current Liabilities**		**(47,662)**
(824)	Long-Term Provisions		(1,556)
(39,854)	Long Term Borrowing	27	(42,518)
-	Long Term Creditors		-
(1,397)	Pensions Liability	28	(1,491)
(42,075)	**Long Term Liabilities**		**(45,565)**
165,039	**Net Assets**		**172,011**
31,160	Usable Reserves		23,310
133,879	Unusable Reserves	10	148,701
165,039	**Total Reserves**		**172,011**

PCC GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC Group in the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

2018/19 £000		2019/20 £000
279,322	Net deficit on the provision of services	113,166
(283,990)	Adjustments to net deficit on the provision of services for non-cash movements (Note 23)	(120,225)
2,030	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	1,874
(2,638)	**Net cash flows from Operating Activities**	**(5,185)**
13,478	Investing activities (Note 25)	11,827
(44,662)	Financing activities (Note 26)	3,943
(33,822)	**Net (Increase)/Decrease in cash & cash equivalents**	**10,585**
1,853	**Cash & cash equivalents at beginning of the reporting period**	**35,675**
35,675	**Cash & cash equivalents at the end of the reporting period (Note 22)**	**25,090**

PCC SINGLE ENTITY CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC in the reporting period. The statement shows how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the PCC are funded by way of taxation and grant income or from the recipients of services provided by the PCC. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the PCC's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the PCC.

2018/19 £000		2019/20 £000
11,918	Net deficit on the provision of services	**11,560**
(16,586)	Adjustments to net deficit on the provision of services for non-cash movements (Note 23)	(18,619)
2,030	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	1,874
(2,638)	**Net cash flows from Operating Activities**	**(5,185)**
13,478	Investing activities (Note 25)	11,827
(44,662)	Financing activities (Note 26)	3,943
(33,822)	**Net (Increase)/Decrease in cash & cash equivalents**	**10,585**
1,853	Cash & cash equivalents at beginning of the reporting period	**35,675**
35,675	**Cash & cash equivalents at the end of the reporting period (Note 22)**	**25,090**

NOTES TO THE ACCOUNTS - Index

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.

PCC GROUP
2019/20

	Outturn position as reported to management £000	Adjustments to arrive at net amount chargeable to Police General Fund* £000	Net expenditure chargeable to Police General Fund £000	Adjustments between the funding and accounting basis* £000	Net expenditure Comprehensive Income & Expenditure Statement £000
Chief Constable:					
Centralised Pay Budgets	218,089	-	218,089	39,414	257,503
Director of Resources	23,343	413	23,756	-	23,756
ACC-Territorial Ops	13,175	6	13,181	-	13,181
ACC Specialist OPs	4,142	(56)	4,086	-	4,086
Deputy Chief Constable	727	(171)	556	-	556
Constabulary Non-Devolved Budgets	20,673	51,145	71,818	(28,459)	43,359
PCC:					
Office of the PCC	1,387	(142)	1,245	102	1,347
Community Safety & Partnerships	977	(302)	675	-	675
Reducing Crime and Re-offending	787	(22)	765	-	765
Victims and Witnesses	226	(60)	166	11	177
PCC Non-Devolved Budgets	3,748	(3,865)	(117)	14,813	14,696
Net Cost of Services	287,274	46,946	334,220	25,881	360,101
Other Income and Expenditure	0	(326,416)	(326,416)	79,481	(246,935)
(Surplus)/Deficit on provision of services	287,274	(279,470)	7,804	105,362	113,166
Opening General Fund Balance			(30,371)		
In-year deficit			7,804		
Closing General Fund Balance			(22,567)		

**Further details are shown in tables that follow*

2018/19 (restated)

	Outturn position as reported to management £000	Adjustments to arrive at net amount chargeable to Police General Fund* £000	Net expenditure chargeable to Police General Fund £000	Adjustments between the funding and accounting basis* £000	Net expenditure Comprehensive Income & Expenditure Statement £000
Chief Constable:					
Centralised Pay Budgets	205,130	-	205,130	28,951	234,081
Director of Resources	19,222	555	19,777	-	19,777
ACC-Territorial Ops	12,037	30	12,067	-	12,067
ACC Specialist OPs	3,240	6	3,246	-	3,246
Deputy Chief Constable	5,787	12	5,799	-	5,799
Constabulary Non-Devolved Budgets	18,807	54,472	73,279	153,074	226,353
PCC:					
Office of the PCC	1,471	-	1,471	80	1,551
Community Safety & Partnerships	757	-	757	-	757
Reducing Crime and Re-offending	912	-	912	-	912
Victims and Witnesses	184	(1)	183	14	197
PCC Non-Devolved Budgets	2,515	(2,640)	(125)	15,099	14,974
Net Cost of Services	270,062	52,434	322,496	197,218	519,714
Other Income and Expenditure	0	(314,918)	(314,918)	74,526	(240,392)
(Surplus)/Deficit on provision of services	270,062	(262,484)	7,578	271,744	279,322
Opening General Fund Balance			(37,949)		
In-year deficit			7,578		
Closing General Fund Balance			(30,371)		

**Further details are shown in tables that follow*

PCC SINGLE ENTITY
2019/20

	Outturn position as reported to management	Adjustments to arrive at net amount chargeable to Police General Fund*	Net expenditure chargeable to Police General Fund	Adjustments between the funding and accounting basis*	Net expenditure Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Office of the PCC	1,387	(307)	1,080	102	1,182
Community Safety & Partnerships	977	(343)	634	-	634
Reducing Crime and Re-offending	787	(51)	736	-	736
Victims and Witnesses	226	(60)	166	11	177
PCC Non-Devolved Budgets	3,748	(18,275)	(14,527)	14,813	286
Funding provided to the CC	-	371,342	371,342	-	371,342
Income collected by the CC	-	(25,211)	(25,211)	-	(25,211)
Net Cost of Services	7,125	327,095	334,220	14,926	349,146
Other Income and Expenditure	-	(326,416)	(326,416)	(11,170)	337,586
Deficit on provision of services	7,125	679	7,804	3,756	11,560
Opening General Fund Balance			(30,371)		
In-year deficit			7,804		
Closing General Fund Balance			(25,267)		

**Further details are shown in tables that follow*

2018/19

	Outturn position as reported to management	Adjustments to arrive at net amount chargeable to Police General Fund*	Net expenditure chargeable to Police General Fund	Adjustments between the funding and accounting basis*	Net expenditure Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Office of the PCC	1,471	(10)	1,461	80	1,541
Community Safety & Partnerships	912	(72)	840	-	840
Reducing Crime and Re-offending	757	(14)	743	_	743
Victims and Witnesses	184	(1)	183	14	197
PCC Non-Devolved Budgets	2,515	(16,934)	(14,419)	15,099	680
Funding provided to the CC	-	356,259	356,259	-	356,259
Income collected by the CC	-	(22,571)	(22,571)	-	(22,571)
Net Cost of Services	5,839	316,657	322,496	15,193	337,689
Other Income and Expenditure	0	(314,918)	(314,918)	(10,853)	(325,771)
Deficit on provision of services	5,839	1,739	7,578	4,340	11,918
Opening General Fund Balance			(37,949)		
In-year deficit			7,578		
Closing General Fund Balance			(30,371)		

**Further details are shown in tables that follow*

Adjustments to arrive at net amount chargeable to Police General Fund

These adjustments relate to items that are included within departmental budgets but excluded from the cost of services in the comprehensive income and expenditure statement.

PCC GROUP
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2018/19 (restated)				2019/20		
Adjustments relating to other income & expenditure £000	**Adjustments relating to transfers to & from reserves £000**	**Total Adjustments £000**		**Adjustments relating to other income & expenditure £000**	**Adjustments relating to transfers to & from reserves £000**	**Total Adjustments £000**
			Chief Constable			
-		-	Centralised Pay Budget	-	-	-
289	266	555	Director of Resources	329	84	413
-	30	30	ACC – Territorial Ops	-	6	6
3	3	6	ACC – Specialist Ops	-	(56)	(56)
-	13	13	Deputy Chief Constable	-	(171)	(171)
57,296	(2,825)	54,471	Constabulary Non-Devolved Budgets	51,281	(136)	51,145
			PCC			
-	-	-	Office of the PCC	-	(142)	(142)
-	-	-	Community Safety & Partnerships	-	(22)	(22)
-	-	-	Reducing Crime & Re-offending	-	(302)	(302)
(1)	-	(1)	Victims & Witnesses	-	(60)	(60)
(10,423)	7,783	(2,640)	PCC Non-Devolved Budgets	(11,279)	7,414	(3,865)
47,164	**5,270**	**52,434**	**Net Cost of Services**	**40,331**	**6,615**	**46,946**
(314,918)	-	(314,918)	Other Income & Expenditure	(326,416)	-	(326,416)
(267,754)	**5,270**	**(262,484)**	**(Surplus)/Deficit on Provision of Services**	**(286,085)**	**6,615**	**(279,470)**

PCC SINGLE ENTITY

2018/19 Adjs relating to other inc & exp £000	2018/19 Adjs relating to transfers to & from reserves £000	2018/19 Adjs relating to the funding of the CC	2018/19 Total Adjs £000		2019/20 Adjs relating to other inc & exp £000	2019/20 Adjs relating to transfers to & from reserves £000	2019/20 Adjs relating to the funding of the CC	2019/20 Total Adjs £000
-	-	(10)	(10)	Office of the PCC	-	(142)	(165)	(307)
-	-	(72)	(72)	Community Safety & Partnerships	-	(22)	(29)	(51)
-	-	(14)	(14)	Reducing Crime & Re-offending	-	(302)	(41)	(343)
(1)	-	-	(1)	Victims & Witnesses	-	(60)	-	(60)
(10,423)	7,783	(14,294)	(16,934)	PCC Non-Devolved Budgets	(25,688)	7,413	-	(18,275)
-	-	356,259	356,259	Funding provided to the CC	-	-	371,342	371,342
-	-	(22,571)	(22,571)	Income collected by the CC	-	-	(25,211)	(25,211)
(10,424)	**7,783**	**319,298**	**316,657**	**Net Cost of Services**	**(25,688)**	**6,887**	**345,896**	**327,095**
(314,918)	-	-	(314,918)	Other Income & Expenditure	(326,416)	-	-	(326,416)
(325,342)	**7,783**	**319,298**	**1,739**	**(Surplus)/Deficit on Provision of Services**	**(352,104)**	**6,887**	**345,896**	**679**

Adjustments between the funding and accounting basis

The tables below provide a more detailed breakdown of the main technical adjustments to Net Expenditure Chargeable to Police General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. An explanation of what these adjustments represent follows these notes.

PCC GROUP

2018/19					2019/20			
Adjs for capital purposes (Note A)	**Net change for pensions adjs (Note B)**	**Other statutory adjs (Note C)**	**Total Statutory Adjs**		**Adjs for capital purposes (Note A)**	**Net change for pensions adjs (Note B)**	**Other statutory adjs (Note C)**	**Total Statutory Adjs**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
-	28,630	321	28,951	Centralised Pay Budgets	-	39,393	21	39,414
-	153,047	27	153,074	Constabulary Non-Devolved budgets	-	(28,459)	-	(28,459)
-	75	5	80	Office of the PCC	-	103	(1)	102
-	-	-	-	Community Safety & Partnerships	-	-	-	-
-	13	1	14	Victims and Witnesses	-	11	-	11
15,039	60	-	15,099	PCC Non-Devolved budgets	14,786	27	-	14,813
15,039	**181,825**	**354**	**197,218**	**Net Cost of Service**	**14,786**	**11,075**	**20**	**25,881**
(11,206)	85,410	322	74,526	Other income and expenditure from Expenditure and Funding Analysis	(11,259)	90,684	56	79,481
3,833	**267,235**	**676**	**271,744**	**Difference between General Fund deficit and CIES Deficit on Provision of Services**	**3,527**	**101,759**	**76**	**105,362**

PCC SINGLE ENTITY

2018/19					2019/20			
Adjs for capital purposes (Note A)	**Net change for pensions adjs (Note B)**	**Other differences (Note C)**	**Total Adjs**		**Adjs for capital purposes (Note A)**	**Net change for pensions adjs (Note B)**	**Other differences (Note C)**	**Total Adjs**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
-	75	5	80	Office of the PCC	-	103	(1)	102
-	13	1	14	Victims and Witnesses	-	12	(1)	11
-	-	-	-	Community Safety & Partnerships	-	-	-	-
15,039	60	-	15,099	PCC Non-Devolved budgets	14,786	27	-	14,813
15,039	**148**	**6**	**15,193**	**Net Cost of Service**	**14,786**	**142**	**(2)**	**14,926**
(11,206)	31	322	(10,853)	Other income and expenditure from Expenditure and Funding Analysis	(11,259)	33	56	(11,170)
3,833	**179**	**328**	**4,340**	**Difference between General Fund deficit and CIES Deficit on Provision of Services**	**3,527**	**175**	**54**	**3,756**

Note A – Adjustments for Capital Purposes

Adjustments for capital purposes –this column adds in depreciation, amortisation of intangible assets and revaluation gains and losses in the service lines and for:

- Other Operating Income and Expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also, any change in the fair value of assets held for sale is reflected in this note;
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted for those receivable in year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note B - 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 C – 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;
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2019/20 £000	2018/19 £000
Expenditure		
Employee expenses	322,187	482,211
Other service expenses	51,388	47,672
Depreciation and amortisation	14,410	14,294
Revaluation losses	376	745
Interest expenses	92,024	86,395
Reduction in FV of assets held for sale	-	-
Write out of NCA sold in year	835	544
Impairment allowance	9	47
Total expenditure	**481,229**	**631,908**
Income		
Fees, charges and other service income	(17,215)	(15,470)
Interest and investment income	(281)	(209)
Income from council tax	(89,180)	(77,410)
Increase in FV of investment assets and assets held for sale	-	(72)
Receipts from sale of non-current assets	(471)	(951)
Government grants and contributions	(260,916)	(258,474)
Total Income	**(368,063)**	**(352,586)**
DEFICIT ON PROVISION OF SERVICES	**113,166**	**279,322**

The PCC's Single Entity expenditure and income is analysed by nature as follows:

	2019/20 £000	2018/19 £000
Expenditure		
Employee expenses	1,085	974
Other service expenses	4,604	4,919
Revaluation losses	376	745
Interest expenses	1,373	1,016
Reduction in FV of assets held for sale	-	-
Write out of NCA sold in year	834	544
Impairment allowance	9	47
PCC funding of CC	371,342	356,259
Total expenditure	**379,623**	**364,504**
Income		
Fees, charges and other service income	(17,215)	(15,470)
Interest and investment income	(281)	(209)
Income from council tax	(89,180)	(77,410)
Increase in FV of investment assets and assets held for sale	-	(72)
Receipts from sale of non-current assets	(471)	(951)
Government grants and contributions	(260,916)	(258,474)
Total Income	(368,063)	(352,586)
DEFICIT ON PROVISION OF SERVICES	**11,560**	**11,918**

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Accounting policies are set out in notes to the accounts. In applying the accounting policies, the PCC Group must make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the statement of accounts 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.

- The PCC has to determine whether there is a group relationship between the PCC and other entities. The accountants have assessed each relationship that exists between the PCC and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The most significant of those relationships is the relationship with the CC of Lancashire who has been assessed as being a 100% subsidiary of the PCC and is included in the PCC Group accounts. The PCC's relationships with other entities can been found in Note 29. It has been determined that there are no further material group relationships that require incorporation into the PCC Group accounts.

- The PCC's valuer is required to exercise judgement in determining the carrying value of land and buildings on the PCC/PCC Group's balance sheet. The valuations are undertaken by appropriately qualified professionals who follow best practice. In addition to valuations which are undertaken in year consideration has been given to the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2020. It was not considered that there was any such need in 2019/20.

4. PRIOR PERIOD ADJUSTMENTS

From 1 December 2019 the management reporting structure at the Constabulary changed and, therefore, the segments reported in the Comprehensive Income and Expenditure Statement also changed. Details of the revised responsibilities are shown at the foot of the Comprehensive income and Expenditure Statement. Although the structure was not in place during 2018/19, in order to assist comparability, the accounts have been adjusted to reflect the changes as if they existed at that time. The changes made to the Comprehensive Income and Expenditure Statement do not impact Net Cost of Service, but impact individual lines as follows:

	Original Net Exp 2018/19	**Re-stated Net Exp 2018/19**	**Adjustment**
	£000	**£000**	**£000**
Impact on individual lines:			
Chief Constable:			
ACC Territorial Ops	11,977	16,726	+4,749
ACC Specialist Ops	3,073	3,246	+173
Deputy Chief Constable	4,751	1,140	-3,611
Head of Change	1,817	-	-1,817
Director of Resources	19,114	19,777	+663
Centralised Pay	235,921	234,080	-1,841
Constabulary Non-Devolved	224,670	226,354	+1,684
Impact on Net Cost of Service	**519,314**	**519,314**	**-**

These changes do not impact any of the other financial statements.

5. 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 2020 but not yet adopted by the Code:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

None of the above amendments are not expected to have any material impact on the accounts of the PCC Group.

In addition to the above amendments a new standard IFRS 16 – Accounting treatment for Leases which was due to be introduced from 1st April 2020 but has now been deferred to 1st April 2021.

The aim of this standard is to increase visibility of lease commitments as well ensuring more consistent financial reporting of lease assets. Under the new standard most leases will now be classified as finance leases and will appear on the balance sheet.

The processing of collating information is well underway but at this stage the resulting changes to the primary statements has not yet been identified.

However, it is anticipated that there will be a nil impact on the PCC's accounts as the current rental costs which appear in the CIES will be replaced by depreciation, MRP and interest charges at similar levels.

The position will be reviewed during 2020/21 and any amendments needed will be clearly shown in next year's Statement of Accounts.

6. 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 considering 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 PCC Group balance sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the valuation. Due to changes in economic conditions a valuation taken on a different date could potentially result in a different valuation. Market activity is being impacted in many sectors as a result of the COVID-19 pandemic. As at the valuation date, our valuer considers that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case.	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE. The pandemic is likely to cause market instability and re-adjustment. The restructuring of markets and the time frame for such adjustment is presently an unknown quantity.
Pensions Liability	Estimation of net liability to pay pensions depends on several 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 of the global pandemic could have a material effect on these calculations but at this stage the effects cannot be quantified with any degree of certainty.	The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 28 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 PCC Group of around £819m. During 2019/20, the PCC's actuaries advised that the net pensions' liability had increased by £82m as a result of changes in financial assumptions. This included a reduction of 0.2% in the discount rate of all schemes (0.1% for PCC Staff in LGPS), which increases the liability, along with increases of 0.1% each in assumptions for inflation, salary and pension increases which result in further increases in liability.
Pensions Assets	The value of the assets of the LGPS is dependent on a professional judgement based on information available at the time of making the valuation. The current COVID-19 pandemic is impacting financial markets in all sectors and at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value.	The total of property assets for the PCC Group as outlined in Note 28 is £33.525m (£0.487m for the PCC) (including Property held within Investment Funds). There is a risk that this asset may be over / understated in the accounts.

	As a result, there is a risk that the value of property investments may be under or over-stated. Valuers are faced with an unprecedented set of circumstances this year, on which to base a judgment. Valuations have therefore been reported based on 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty, and a higher degree of caution, should be attached to the valuation of property holdings than would normally be the case.	

7. **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 are 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 PCC's CFO on 14 December 2020. 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 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

McCloud / Sargeant judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling.

On 16 July 2020 consultation documents were published which contained the proposed remedy regarding the McCloud/Sargeant issue for all public sector pension schemes including the Police Pension Scheme.

Included in the proposal for the Police Pension Scheme are details of which members are eligible for remedy. In particular, those who were members of a pension scheme on or before 31 March 2012 and on or after 1 April 2015 will be in scope to choose between their 2015 Scheme or legacy scheme benefits for the period April 2015 to April 2022.

The approach used by our actuary when calculating the past service cost in respect of McCloud/Sargeant in the 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in the 2019/20 accounts was in line with the eligibility criteria set out in the published consultation i.e. members joining the scheme after 31 March 2012 were not eligible and therefore not included in the calculations

In respect of the LGPS Scheme the key feature of the proposed remedy was that the final salary scheme underpin is to be extended to a wider group of members for service up to 31 March 2022.

The calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation. However there are some minor changes to the underpin for all members who were active on or before 31 March 2012 (e.g. it can now apply historically to members leaving service after 1 April 2014), and the calculation will apply retrospectively even in those cases where a member no longer has a benefit entitlement from the Fund. Other than in exceptional circumstances it is expected that the impact of these minor proposed changes to be nil.

Furthermore, when calculating the potential cost of the McCloud judgment as part of the 2019 actuarial valuations allowance was taken for the final salary underpin to apply in respect of future leavers with deferred benefits, so the further changes in the consultation do not give rise to any additional liabilities in respect of future leavers.

Based on this the consultation is noted as a post balance sheet non-adjusting event within these accounts.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

8. 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 PCC 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 capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

GENERAL FUND BALANCE

The Police General Fund Balance is the statutory fund into which all receipts are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the PCC is statutorily empowered to spend on his services or on capital investment at the end of the financial year.

CAPITAL RECEIPTS RESERVE

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at year-end.

CAPITAL GRANTS UNAPPLIED

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the conditions have been met that would otherwise require the repayment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place

2019/20

PCC GROUP	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to Revenue Resources			
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)	101,759		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	56		
• Untaken leave and Time Off in Lieu (transferred to the Accumulated Absences Account	20		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	13,874		
Total Adjustments to Revenue Resources	**115,709**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(127)	127	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,096)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,124)		
Total Adjustments between Revenue and Capital Resources	**(10,347)**	**127**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure			
Application of capital grants to finance capital expenditure			(174)
Total Adjustments to Capital Resources	**-**	**-**	**(174)**
Total Adjustments	**105,362**	**127**	**(174)**

PCC SINGLE ENTITY	**Usable Reserves** **General Fund Balance £000**	 **Capital Receipts Reserve £000**	 **Capital Grants Unapplied £000**
Adjustments to Revenue Resources 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)	175		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	56		
• Untaken leave and Time Off in Lieu (transferred to the Accumulated Absences Account	(2)		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	13,874		
Total Adjustments to Revenue Resources	**14,103**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(127)	127	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,096)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,124)		
Total Adjustments between Revenue and Capital Resources	**(10,347)**	**127**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure			(174)
Application of capital grants to finance capital expenditure			
Total Adjustments to Capital Resources	**-**	**-**	**(174)**
Total Adjustments	**3,756**	**127**	**(174)**

2018/19

PCC GROUP	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to Revenue Resources			
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)	267,235		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	322		
• Untaken leave and Time Off in Lieu (transferred to the Accumulated Absences Account	354		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,106		
Total Adjustments to Revenue Resources	**282,017**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(625)	625	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(415)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,233)		
Total Adjustments between Revenue and Capital Resources	**(10,273)**	**625**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(242)	
Application of capital grants to finance capital expenditure			(591)
Total Adjustments to Capital Resources	**-**	**(242)**	**(591)**
Total Adjustments	**271,744**	**383**	**(591)**

PCC SINGLE ENTITY	Usable Reserves General Fund Balance £000	 Capital Receipts Reserve £000	 Capital Grants Unapplied £000
Adjustments to Revenue Resources 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)	180		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	322		
• Untaken leave and Time Off in Lieu (transferred to the Accumulated Absences Account	5		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,106		
Total Adjustments to Revenue Resources	**14,613**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(625)	625	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(415)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,233)		
Total Adjustments between Revenue and Capital Resources	**(10,273)**	**625**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(242)	
Application of capital grants to finance capital expenditure			(591)
Total Adjustments to Capital Resources	**-**	**(242)**	**(591)**
Total Adjustments	**4,340**	**383**	**(591)**

9. EARMARKED RESERVES

Accounting Policy

All usable reserves belong to the PCC. These include both revenue and capital usable reserves. The PCC sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police General Fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged against the relevant service line to score against the surplus/deficit on the provision of services in the CIES. The reserve is then appropriated back into the Police General Fund balance in the movement in reserves statement so that there is no net charge against council tax in the year that the expenditure is incurred.

Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Police General Fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

	Comparative Year 2018/19			2019/20			
	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	**Balance at 31 March 2019**	Transfers Out 2019/20	Transfers In 2019/20	**Balance at 31 March 2020**
Earmarked Reserves:	**£000**	£000	£000	**£000**	£000	£000	**£000**
Capital Funding Reserve	**-**	(9,233)	9,233	**-**	(9,124)	9,124	**-**
Confiscation & Forfeiture Reserve	**266**		34	**300**	-	73	**373**
Clothing Development Reserve	**471**	(162)	75	**384**	(159)	75	**300**
Vehicle Maintenance Reserves	**40**	-	-	**40**	-	-	**40**
POCA Equalisation Reserve	**640**	(93)	-	**547**	-	-	**547**
Transition Reserve	**16,177**	(1,394)		**14,783**	(7,633)	-	**7,150**
Operational Policing Reserve	**364**	(506)	2,057	**1,915**	(224)	-	**1,691**
Strategic Investment Reserve	**5,998**	(6,051)	53	**-**	-	-	**-**
Road Safety Reserves	**1,779**	(334)	529	**1,974**	(370)	559	**2,163**
Forensic Academy Reserves	**406**	(961)	736	**181**	(11)	52	**222**
Wellbeing Reserve	**25**	(9)	-	**16**	-	1	**17**
TITAN Reserve	**-**	-	56	**56**	(56)	-	**-**
Total Earmarked Reserves	**26,166**	**(18,743)**	**12,773**	**20,195**	**(17,577)**	**9,884**	**12,502**

10. Unusable Reserves

Accounting Policy

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

PCC			PCC GROUP	
31 March 2019	31 March 2020		31 March 2019 £000	31 March 2020 £000
53,018	69,879	Revaluation Reserve	53,018	69,879
81,080	79,190	Capital Adjustment Account	81,080	79,190
(1,397)	(1,491)	Pensions Reserve	(3,678,291)	(3,795,110)
1,189	1,133	Collection Fund Adjustment Account	1,189	1,133
(11)	(10)	Accumulated Absences Account	(5,333)	(5,354)
133,879	**148,701**	**Total Unusable Reserves**	**(3,548,337)**	**(3,650,262)**

Revaluation Reserve

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

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

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

	PCC/PCC GROUP	
	31 March 2020 £000	31 March 2019 £000
Balance at 1 April	**53,018**	**53,598**
Upward revaluation of assets	19,758	2,744
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(1,307)	(2,020)
Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services	18,451	724
Difference between fair value depreciation and historical cost depreciation	(1,443)	(1,229)
Accumulated gains on disposed assets	(147)	(75)
Other amounts written off to the capital adjustment account	-	-
Amount written off to the capital adjustment account	(1,590)	(1,304)
Balance at 31 March	**69,879**	**53,018**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the PCC as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Assets and also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

	PCC/PCC GROUP		
	31 March 2020		31 March 2019
	£000	£000	£000
Balance at 1 April		**81,080**	**83,401**
Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:			
Charges for depreciation and impairment of non-current		(13,082)	(12,444)
Revaluation losses on property, plant and equipment		(376)	(745)
Amortisation of intangible assets		(1,327)	(1,612)
Revenue expenditure funded by capital under statute		-	(238)
Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES		(835)	(544)
		(15,620)	(15,583)
Adjusting amounts written out of the revaluation reserve		1,590	1,304
Net written out amount of the cost of non-current assets consumed in the year		**(14,030)**	**(14,279)**
Capital financing applied in year:			
Use of the capital receipts reserve to finance new capital expenditure		-	242
Capital grants and contributions credited to the CIES that have been applied to capital financing		1,746	1,405
Application of grants to capital financing from the capital grant unapplied account		174	591
Statutory provision for the financing of capital investment charged against the General Fund balance		1,096	415
Capital expenditure charged against the General Fund		9,124	9,233
	12,140		11,886
Movement in the market value of investment properties and assets held for sale debited or credited to the CIES		-	72
Other adjustments			
Balance at 31 March		**79,190**	**81,080**

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 PCC and PCC Group account 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 PCC makes the employer's contributions to the pension funds or eventually pays any pensions for which he is directly responsible. 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.

PCC			**PCC GROUP**	
31 March 2019 £000	**31 March 2020 £000**		**31 March 2019 £000**	**31 March 2020 £000**
(1,272)	**(1,397)**	**Balance at 1 April**	**(3,213,535)**	**(3,678,291)**
55	81	Re-measurements of the net defined benefit (liability)/ asset	(197,521)	(15,060)
(271)	(294)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services	(365,818)	(201,720)
91	119	Employer's pensions contribution and direct payments to pensioners payable in the year	98,583	99,961
(1,397)	**(1,491)**	**Balance at 31 March**	**(3,678,291)**	**(3,795,110)**

Collection Fund Adjustment Account

The collection fund adjustment account manages the difference arising from the recognition of council tax income in the CIES as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the Police General Fund from the collection fund.

	31 March 2020 £000	**31 March 2019 £000**
Balance at 1 April	**1,189**	**1,511**
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(56)	(322)
Balance at 31 March	**1,133**	**1,189**

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.

PCC			PCC GROUP	
31 March 2019 £000	31 March 2020 £000		31 March 2020 £000	31 March 2019 £000
(6)	**(11)**	**Balance at 1 April**	**(5,333)**	**(4,979)**
6	11	Settlement or cancellation made at the end of the preceding year	5,333	4,979
(11)	(10)	Amounts accrued at the end of the current year	(5,354)	(5,333)
(5)	1	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(21)	(354)
(11)	**(10)**	**Balance at 31 March**	**(5,354)**	**(5,333)**

Notes to the Comprehensive Income and Expenditure Statement

11. **Other operating income and expenditure**

	2019/20 £000	2018/19 £000
Loss/(Gain) on the disposal of non-current assets	380	(383)
Changes in fair value of assets held for sale	0	0
Funding for Additional Employer Pension Contributions	(3,104)	-
Home Office pension grant	(51,291)	(57,332)
Total	**(54,015)**	**(57,715)**

12. **Financing and investment income and expenditure**

PCC			PCC GROUP	
2018/19 £000	2019/20 £000		2019/20 £000	2018/19 £000
984	1,340	Interest payable and similar charges	1,340	984
32	33	Net interest on the defined benefit pensions liability	90,684	85,411
(209)	(281)	Interest receivable and similar income	(281)	(209)
(72)	-	Changes in fair value of investment properties	-	(72)
47	9	Impairment Allowance	9	47
782	**1,101**	**Total**	**91,752**	**86,161**

13. Taxation and non-specific grant income

Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of council tax, council tax transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of council tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund shall be taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement. A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing council from council tax debtors that belongs proportionately to the billing authorities and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Taxation and non-specific grant income included in the CIES is as follows:

	2019/20 £000	2018/19 £000
Council tax income	(89,180)	(77,410)
Capital grants and contributions	(1,747)	(1,404)
Non ring-fenced government grants	(193,745)	(190,024)
Total	**(284,672)**	**(268,838)**

14. Government grants and contributions

Accounting Policy

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the PCC/PCC Group when there is reasonable assurance that the Group will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the PCC Group are not credited until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the Police General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The PCC/PCC Group credited the following grants and contributions to the CIES in 2019/20:

	2019/20 £000	2018/19 £000
Credited to Taxation and Non-Specific Grant Income:		
Police Grant	(193,745)	(190,024)
Capital Grant and contributions	(1,747)	(1,404)
Total	**(195,492)**	**(191,428)**
Credited to Other Income and Expenditure:		
Home Office grant payable towards the cost of retirement benefits	**(51,291)**	**(57,332)**
Home Office funding for additional employer's pension contributions	(3,104)	-
Total	**(54,395)**	**(57,332)**
Credited to Services:		
Counter Terrorism	(1,555)	(1,418)
Ministry of Justice Victims Funding	(1,722)	(1,726)
Funding for Additional Police Officers	(733)	-
Policing of Fracking Protests	(1,271)	(4,425)
Serious Violence Funding	(1,820)	-
Violence Reduction Unit Funding	(1,160)	-
Share of grant funding received by lead forces in collaboration arrangements	(640)	(528)
Other small grants & contributions	(2,128)	(1,617)
Total	**(11,029)**	**(9,714)**

15. Capital Charges and Fair Value Charge to Chief Constable

All assets (land, buildings, equipment etc.) are owned by the PCC. Therefore, the costs of ownership for these assets, such as depreciation, are initially charged to the PCC's statement of accounts. However, it is necessary to reflect the fact that the CC has had use of these assets during 2019/20. Using the principle of 'substance over form', a fair value proxy cost will be included in the CC's CIES to reflect the utilisation of the PCC- owned fixed assets which mirrors depreciation of property, plant and equipment, amortisation of intangible assets and impairment from obsolescence or physical damage.

The following transactions have been made in the PCC's cost of service relating to the movement in balance sheet value of the PCC's property plant and equipment.

	2019/20 £000	2018/19 £000
Depreciation of PPE	13,083	12,444
Amortisation of intangible assets	1,327	1,612
Revenue expenditure funded by capital under statute	0	238
Fair value recharge to CC to reflect his use of the assets to deliver the policing service	(14,410)	(14,294)
Revaluation losses	376	745
Total charges in respect of property, plant and equipment & intangible assets	**376**	**745**

Revaluation gains and losses remain with the PCC as they are not deemed to reflect cost of use but are more a reflection of the economic conditions, which should remain with the PCC.

16. 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 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:

2018/19 **£000**		**2019/20** **£000**
623,663	Provision of services deficit in CC CIES prior to PCC funding	472,948
(365,547)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(201,426)
98,492	Replace with actual employer contribution funded by PCC	99,842
(349)	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	(22)
356,259	**PCC funding for PCC resources consumed at the request of the CC**	**371,342**
	Consisting of:	
14,294	Fair value adjustment for CC consumption of PCC property & equipment	14,410
341,965	Other resources	356,932
356,259	**Total PCC resources consumed at the request of the CC**	**371,342**

17. 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 to the Group. 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 PCC Group to terminate a staff member's employment before the normal retirement date or an staff member's decision to accept voluntary redundancy and are charged on an accruals basis to surplus or deficit on the provision of services in the CIES at the earlier of when the PCC Group can no longer withdraw the offer of those benefits or when the PCC Group recognises costs for a restructuring.

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

The remuneration paid to the senior employees of the Office of the PCC and the PCC group as a whole is as follows:

Senior Officers and Relevant Police Officers 2019-20

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
		£	£	£	£	£	£	£
OFFICE OF THE PCC								
Police & Crime Commissioner		86,147			4,260	90,407	12,051	102,458
Deputy Police & Crime Commissioner		26,651				26,651	3,704	30,355
Director of the Office of the PCC & Monitoring Officer		93,215				93,215	12,957	106,172
Chief Finance Officer		72,251				72,251	10,043	82,294
Crime, Re-offending and Criminal Justice Lead		55,540				55,540	7,720	63,260
Governance and Policing Lead		49,592				49,592	6,893	56,485
Procurement and Commissioning Lead		49,592				49,592	6,893	56,485
Victims and Vulnerable People Lead		49,592				49,592	6,893	56,485
Stakeholder Relations & Business Support Lead		46,470				46,470	6,459	52,929
LANCASHIRE CONSTABULARY								
Chief Constable – A Rhodes		166,684			3,817	**170,501**	50,986	**221,487**
Deputy Chief Constable – A	Note 1	65,208			2,087	**67,295**	19,281	**86,576**
Deputy Chief Constable – B		79,557			4,385	83,942	24,663	108,605
Assistant Chief Constable – Territorial Divisions & Contact Management – C	Note 2	45,118				45,118	13,987	59,105
Assistant Chief Constable – Territorial Divisions & Contact Management – D		59,868				59,868	18,270	78,138
Assistant Chief Constable – Specialist Operations		112,365		64		112,429	27,236	139,665
Director of Resources		114,557			4,935	119,492	16,118	135,610
Head of Change	Note 3							

Note 1 Post covered by two officers over the year. A – 1st April 2019 – 17th September 2019; B – 18th September 2019 – 31st March 2020.

Note 2 Post covered by two officers over the year: C-1st April – 17th September 2019; D – 24th September 2019 – 31st March 2020.

Note 3 Head of Change is seconded from HMICFRS. Remuneration costs totalling £64,412 for the period 1st April 2019 to 10th November 2019 have been paid direct to Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

Senior Officers and Relevant Police Officers 2018-19

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
		£	£	£	£	£	£	£
OFFICE OF THE PCC								
Police & Crime Commissioner	Note 1	86,558	-	-	5,525	92,083	12,032	104,115
Deputy Police & Crime Commissioner	Note 2	8,120	-	-	-	8,120	1,129	9,249
Director of the Office of the PCC & Monitoring Officer		89,189	-	-	-	89,189	12,397	101,586
Crime, Re-offending and Criminal Justice Lead		52,617	-	-	-	52,617	7,314	59,931
Governance and Policing Lead		48,155	-	-	-	48,155	6,694	54,849
Procurement and Commissioning Lead		49,252	-	-	-	49,252	6,846	56,098
Victims and Vulnerable People Lead		47,690	-	-	-	47,690	6,694	54,384
Stakeholder Relations & Business Support Lead		44,003	-	-	-	44,003	6,116	50,119
Volunteer and Partnership Manager	Note 3	3,513	-	-	-	3,513	488	4,001
LANCASHIRE CONSTABULARY								
Chief Constable		163,613	-	-	3,823	167,436	38,910	206,346
Deputy Chief Constable		136,134	-	1,692	5,068	142,894	32,099	174,993
Assistant Chief Constable – Territorial Divisions & Criminal Justice		104,560	-	-	2,211	106,771	25,303	132,074
Assistant Chief Constable – Specialist Operations – A	Note 4	102,254	-	1,251	-	103,505	20,258	123,763
Assistant Chief Constable – Specialist Operations - B	Note 4	19,894	-	-	(1,279)	18,615	4,711	23,326
Director of Resources		112,548	-	-	10,462	123,010	15,757	138,767
Head of change	Note 5	-	-	-	-	-	-	-

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £86,700 and is set by the Home Office.

Note 2 The Deputy PCC commenced in post in December 2019 on a part-time basis

Note 3 The Volunteer and Partnership Manager commenced in post in February on a part-time basis.

Note 4 Post covered by two officers over the year: A – 1 April 2019 – 31 March 2020; B - 1st April – 3rd June 2019.

Note 5 Head of Change is seconded from HMICFRS. Remuneration costs totalling £36,269 for the period 1st Nov 2019 to 31st March 2020 have been paid direct to Her Majes Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

The PCC Group employed an estimated 5,300 full time equivalents during 2019/20 (5,010 in 2018/19). 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): -

	2019/20			2018/19		
	Police Officers	**Police Staff**	**Total**	**Police Officers**	**Police Staff**	**Total**
£130,000 - £134,999	1	-	**1**			
£115,000 - £119,999	-	1	**1**			
£100,000 - £104,999	-	-	**-**	1	-	**1**
£90,000 - £94,999	3	-	**3**	2	-	**2**
£85,000 - £89,999	5	-	**5**	2	1	**3**
£80,000 - £84,999	10	-	**10**	9	-	**9**
£75,000 - £79,999	5	2	**7**	7	3	**10**
£70,000 - £74,999	6	3	**9**	8	3	**11**
£65,000 - £69,999	6	1	**7**	4	2	**6**
£60,000 - £64,999	37	4	**41**	19	3	**22**
£55,000 - £59,999	144	6	**150**	130	3	**133**
£50,000 - £54,999	230	10	**240**	218	8	**226**
Total	447	27	**474**	400	23	**423**

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

The table above includes a number of police staff employed by the Chief Constable who appear only because of a one-off redundancy payment. The numbers and banding affected are shown below:

	2019/20	**2018/19**
£115,000 - £119,999	1	
£85,000 - £89,999	-	1
£75,000 - £79,999	-	2
£70,000 - £74,999	-	1
£60,000 - £64,999	1	1
£55,000 - £59,999	3	1
£50,000 - £54,999	2	-
	7	**6**

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Exit packages

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

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band £
£0 - £20,000	-	9	52,873
£20,001 - £40,000	2	5	214,901
£40,001 - £60,000	-	4	206,136
£60,001 - £100,000	-	1	73,128
£100,000 - £150,000	-	2	227,904
£250,000 - £300,000	-	1	275,346
Total	**2**	**22**	**1,050,288**

There are no exit packages included in the above note that relate to the Office of the PCC for 2019/20.

2018/19 Comparators:

PCC Group:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band £
£0 - £20,000	-	12	67,418
£20,001 - £40,000	1	6	202,403
£40,001 - £60,000	1	1	118,645
£60,001 - £100,000	-	2	148,991
£100,000- £150,000	1	1	239,668
Total	**3**	**22**	**777,125**

There are no exit packages included in the above note that relate to the Office of the PCC for 2018/19.

Balance Sheet Notes

18. Property, Plant and Equipment

Accounting Policies

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment in excess of £15,000 is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the PCC Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

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

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be operational.

Assets that are being constructed by the PCC Group will initially be recognised at cost. Only those costs that can be directly attributable to bringing the asset into operation will be capitalised. The PCC does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the PCC and PCC Group balance sheets using the following measurement bases:

- assets under construction – historical cost
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

All assets held on a valuation basis, as determined by the code of practice, have been reviewed within a three-year period by RICS qualified surveyors at Lancashire County Council and Cell:CM to ensure that the carrying amounts are not materially different from fair value at the balance sheet date. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In this case the gain up to the amount of the loss will be credited to the CIES.

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

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. The revaluation reserve was created with effect from 1 April 2007 with a zero opening balance. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. No impairments were identified in 2018/19.

Depreciation

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

Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles and IT equipment, - straight line basis over lives which are assessed individually by professional staff within the Constabulary.

- furniture and equipment other than IT equipment is depreciated over 10 years, unless it is known that a different period is required.

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

Property and property components:

- Under 10 years
- 10-14 years
- 15-19 years
- 20-29 years
- 30-39 years
- 40-49 years
- 50 years and over

Depreciation is based on the lower limit. Properties over 50 years are depreciated over a 50 year life, while properties under ten years are depreciated based on an assessment of their actual life. The lives of vehicles, IT assets and intangibles such as software licences are assessed individually by professional staff within the Constabulary. Furniture and equipment other than computer equipment is depreciated over 10 years, unless it is known that a different period is required.

Where an item of property, plant and equipment asset has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. In considering whether there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, are not subject to depreciation;

- The asset will be reviewed and any part of the asset which can be identified as a self-contained building will be subject to a separate valuation and asset life. This will ensure that any part of the overall asset which is not of the same construction quality has a specific use and/or economic life identified;
- For any building with a value above £1m consideration will be given as to whether there is any significant part which requires a separate component. This will take into consideration whether there is any aspect of the construction, such as roof, windows, services or any specialist item which has a substantially different asset life. For the purpose of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant;
- Any equipment which is a fixture of the building will be included within the overall asset valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the capital receipts reserve and can then only be used for new capital investment or be set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Police General Fund balance in the movement in reserve statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the movement in reserve statement.

Charges to Revenue for Non-Current Assets

The PCC and PCC Group CIES are charged with the following amounts to record the real cost of holding non-current assets during the year:

Depreciation attributable to the assets used by the service;

Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off;

Amortisation of intangible non-current assets attributable to the service.

The PCC is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, he is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance; this is known as the minimum revenue provision (MRP). Depreciation, impairment and revaluation losses and amortisations are therefore reversed to the capital adjustment account via the movement in reserves statement and replaced by the MRP.

Movements in 2019/20:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2019	**175,970**	**44,780**	**900**	**221,651**
Additions	1,180	10,827	433	12,440
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(376)			(376)
Revaluation increase/(decrease) recognised in the revaluation reserve.	18,451	(1)		18,450
De-recognition –disposals	(525)	(310)		(835)
Adjustment to write off gross costs and accumulated depreciation on disposals	(5,314)	(8,662)		(13,976)
At 31 March 2020	**189,387**	**46,634**	**1,333**	**237,354**
Accumulated Depreciation & Impairment				
At 1 April 2019	**(10,635)**	**(19,094)**	**-**	**(29,729)**
Depreciation charge	(3,587)	(9,495)		(13,082)
Adjustment to write off gross costs and accumulated depreciation on disposals	5,314	8,662		13,976
At 31 March 2020	**(8,908)**	**(19,927)**		**(28,835)**
Net Book Value				
At 31 March 2020	**180,479**	**26,707**	**1,333**	**208,519**
At 31 March 2019	**165,335**	**25,686**	**900**	**191,921**

Movements in 2018/19:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2018	**148,510**	**40,795**	**25,857**	**215,162**
Additions	3,723	9,379	868	13,970
Revaluation increases/(decreases) recognised in the revaluation reserve.	(1,183)	233	-	(950)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(904)	-	-	(904)
De-recognition –disposals	(385)	(5,679)	-	(6,064)
De-recognition – other	26,210	52	(25,825)	437
At 31 March 2019	**175,971**	**44,780**	**900**	**221,651**

Accumulated Depreciation & Impairment				
At 1 April 2018	**(7,601)**	**(17,038)**	**-**	**(24,639)**
Depreciation charge	(4,872)	(7,572)	-	(12,444)
Depreciation written out to the revaluation reserve	1674	-	-	1674
Depreciation written out to surplus/deficit on the provision of services	159	-	-	159
De-recognition – disposals	4	5,516	-	5,520
De-recognition – other	**(10,636)**	**(19,094)**	**-**	**(29,730)**
At 31 March 2019	**(7,601)**	**(17,038)**	**-**	**(24,639)**

Net Book Value				
At 31 March 2019	**165,335**	**25,686**	**900**	**191,921**
At 31 March 2018	**140,909**	**23,757**	**25,857**	**190,523**

Capital Commitments

At 31 March 2020 the PCC Group has entered a number of capital contracts in respect of expenditure to be incurred in 2020/21 and future years, budgeted to cost £8.7m. Similar commitments at 31 March 2019 were £2.9m.

Effects of Changes in Estimates

In 2019/20 the PCC made no material changes to its accounting estimates for property, plant and equipment.

Revaluations

The PCC Group carries out a rolling three-year programme that ensures that all property, plant and equipment required to be measured at fair value is re-valued sufficiently regularly to ensure that the carrying amount is not materially different from fair value at the balance sheet date. Revaluations in 2019/20 were carried out by RICS qualified surveyors employed by Lancashire County Council and Cell:CM. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value and these are not therefore subject to revaluation.

The following table shows the progress of the PCC Group's rolling programme for the revaluations of property plant and equipment.

	Land & Buildings	**Vehicles, Plant, Furniture & Equipment**	**Total**
	£000	**£000**	**£000**
Carried at historical cost	-	46,634	46,634
Valued at fair value as at:			
31 March 2020	78,913	-	78,913
31 March 2019	42,551	-	42,551
31 March 2018	67,108	-	67,108
Total Cost or valuation	**188,572**	**46,634**	**235,206**

19. Capital Expenditure and Financing

Accounting Policy - Government Grants and Contributions

Where capital grants are credited to the CIES, they are reversed out of the General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the PCC Group, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the PCC Group that has yet to be financed. The CFR is analysed in the second part of this note.

	2019/20 £000	2018/19 £000
Opening Capital Financing Requirement	**61,288**	**57,825**
Capital Investment		
Property, plant and equipment	12,440	13,970
Intangible assets	185	1,141
Revenue expenditure funded by capital under statute	0	238
Sources of finance		
Capital receipts	0	(242)
Government grants & other contributions	(1,920)	(1,996)
Direct revenue contributions	(9,124)	(9,233)
Minimum Revenue Provision	(1,096)	(415)
Closing Capital Financing Requirement	**61,773**	**61,288**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow	485	3,463
Increase/(decrease) in Capital Financing Requirement	**485**	**3,463**

20. **Debtors**

At 31 March	31 March 2020 £000	31 March 2019 £000
Trade debtors	7,706	5,254
Share of council tax debtors	5,464	5,020
Other debtors	12,108	13,112
TOTAL	**25,278**	**23,386**

Debtors are reported net of impairment allowance. Billing authorities have confirmed that all overdue council tax debt is considered for impairment.

21. **Creditors**

PCC			PCC Group	
31 March 2019	**31 March 2020**		**31 March 2020**	**31 March 2020**
£000	**£000**		**£000**	**£000**
		Creditors comprise:		
10,769	11,074	Trade creditors	10,769	11,081
3,831	4,330	Share of council tax creditors	3,831	4,330
40	289	Tax & social security	4,383	4,892
1,712	1,830	Other Entities and Individuals	8,972	10,275
6,281	7,704	Intragroup creditor	-	-
22,633	**25,227**	**TOTAL**	**27,955**	**30,578**

Included with the creditors balance is an amount of £1.1m representing cash seized by Police under the Proceeds of Crime Act 2002 (£1.2m at 31 March 2019). This cash is collected on behalf of the Home Office and does not impact on the CIES.

22. **Cash and Cash Equivalents**

Accounting Policy

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

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

	31 March 2020 £000	**31 March 2019 £000**
Cash held	168	178
Bank current accounts	10	10
Short-term deposits under three months	24,912	35,487
TOTAL	**25,090**	**35,675**

23. Cash Flow Statement -Adjustments to Net Deficit on the provision of services for non-cash movement

PCC			PCC GROUP	
2018/19 £000	2019/20 £000		2018/19 £000	2019/20 £000
(13,427)	(13,458)	Depreciation, REFCUS, impairments and downward valuations	(13,427)	(13,458)
(1,612)	(1,327)	Amortisation	(1,612)	(1,327)
392	(2,880)	Net (increase)/decrease in revenue creditors	43	(2,901)
(2,215)	1,001	Net increase/(decrease) in revenue debtors	(2,215)	1,001
333	(225)	Increase/(decrease) in inventories	333	(225)
(180)	(175)	Pension liability	(267,235)	(101,759)
595	(720)	Contributions from provisions	595	(721)
(544)	(835)	Carrying amount of non-current assets sold	(544)	(835)
-	-	Movement in value of assets held for sale	-	-
72	-	Movement in value of investment property	72	-
(16,586)	**(18,619)**	**Total**	**(283,990)**	**(120,225)**

24. Cash Flow Statement – Adjustments for items included in the net deficit on the provision of services that are investing and financing activities

	PCC/PCC GROUP	
	2019/20 £000	2018/19 £000
Capital grants and contributions credited to (surplus)/deficit on provisions of services	1,747	1,405
Proceeds from sale of PPE	127	625
Total	**1,874**	**2,030**

25. Cash Flow Statement – Investing Activities

	PCC/PCC GROUP	
	2019/20 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	13,201	15,870
Proceeds from sale of property, plant and equipment, investments property and intangible assets	(127)	(625)
Proceeds from disposal of short-term investments	-	-
Other receipts from investing activities	(1,247)	(1,767)
Net cash outflows/(inflows) from investing activities	**11,827**	**13,478**

26. Cash Flow Statement – Cash Flows from Financing Activities

	PCC/PCC GROUP	
	2019/20 **£000**	**2018/19** **£000**
Cash repayment of short and long term borrowing	27,159	16,100
Cash receipt of long and short term borrowing	(23,216)	(61,000)
Transferred debt repayment	-	238
Total cash outflows from financing activities	**3,943**	**(44,662)**

27. Financial Instruments

Accounting Policy

Financial Instruments – Classifications

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability in another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to a financial instrument.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the PCC and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the PCC.

All the PCCs financial liabilities held during the year are measured at amortised cost and comprised:

- long term loans from the Public Works Loans Board;
- short term loans from other local authorities;
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the PCC that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the PCC.

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

All the financial assets held by the PCC during the year are all held under the classification of amortised cost (where cash flows are solely payments of principal and interest and the PCCs business model is to collect those cash flows) comprising:

- cash in hand;
- bank current account held with Nat West Bank;
- surplus cash balances held on call with Lancashire County Council;
- trade receivables for goods and services provided.

Expected Credit Loss Model

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed based on 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the PCC, where material.

The Code confirms that local authorities must not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default. As surplus cash balances are swept from the bank current account daily into a call account with the County Council no loss allowance is recognised for this financial asset.

Fair Values

All Financial instruments are carried in the balance sheet at amortised cost as the PCC's business model is to hold investments to collect contractual cash flows. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

- Loans borrowed by the PCC have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans;
- The fair values of long-term loans have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2020;
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

	Fair Value Level	Balance Sheet 31 March 20 £000	Fair Value 31 March 20 £000	Balance Sheet 31 March 19 £000	Fair Value 31 March 19 £000
Financial liabilities held at amortised cost:					
Long term loans from PWLB	2	57,817	61,473	40,954	44,318
TOTAL		**57,817**	**61,473**	**40,954**	**44,318**
Liabilities for which fair value is not disclosed*		19,404		39,460	
TOTAL FINANCIAL LIABILITIES		**77,221**		**80,414**	
Recorded on the balance sheet as:					
Long term borrowing		42,518		39,854	
Short-term borrowing		20,493		27,100	
Short-term creditors		14,210		13,460	
TOTAL FINANCIAL LIABILITIES		**77,221**		**80,414**	

*The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

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

Financial assets held at amortised cost:	Balance Sheet 31 March 20 £000	Balance Sheet 31 March 19 £000
Assets for which fair value is not disclosed*	32,796	40,928
TOTAL FINANCIAL ASSETS	**32,796**	**40,928**
Recorded on the balance sheet as:		
Cash and cash equivalents	25,090	35,675
Short-term debtors	7,706	5,253
TOTAL FINANCIAL LIABILITIES	**32,796**	**40,928**

*The fair value of short-term financial assets held at amortised cost, including trade receivable and surplus cash balances invested "on-call" with Lancashire County Council, is assumed to approximate to the carrying amount.

Income, Expense, Gains and Losses

Gains and Losses on Financial Instruments

The gains and losses during 2019/20 on financial instruments, i.e. the borrowings and investments detailed above, which have been recognised in the deficit on the provision of services in the CIES, are as shown in the following table

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	2019/20 £000	2018/19 £000
Interest expense	1,328	952
Total Interest payable	**1,328**	**952**
Interest income	281	209
Total interest receivable	**281**	**209**

Exposure to Risk in Financial Instruments

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

Credit Risk - Trade Receivables

Counterparty credit risk is the risk that a counterparty will be unable to meet its obligations and repay monies owed to the PCC. The risk arises from deposits with banks and financial institutions, as well as credit exposures to the organisation's customers.

Regarding financial institutions, the risk is minimised through the annual investment strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration with which the PCC can be invested in an institution depending upon the quality of credit rating.

During the 2019/20 financial year the PCC's balances were invested only with Lancashire County Council so that the investment portfolio maintained a very high AA- credit rating.

The following analysis summarises the PCCs trade receivables by due date. Only those receivables meeting the definition of financial assets are included.

	31 March 2020 £000	31 March 2019 £000
Neither past due nor impaired	7,249	5,035
Past due < 3 months	135	33
Past due 3 – 6 months	21	46
Past due 6 – 12 months	150	33
Past due 12+ months	96	60
Individually impaired	56	47
TOTAL RECEIVABLES	**7,706**	**5,254**

Receivables are considered to be in credit risk where they are 60 days or more past due and they are determined to be credit impaired where they are 90 days or more past due. They are collectively assessed for credit risk and the requirement for an impairment loss allowance has been assessed by reference to the PCC's historic experience of ultimate default across the following categories:

- Public Sector – debt has been excluded from this assessment as there are statutory provisions in place to prevent default;

- Football – whilst, a three year average of £7k has been identified as being credit impaired, the amount of debt ultimately written off over that period is nil hence no impairment allowance is considered necessary;
- Individual legal, court costs awarded – the value of debt in default, excluding the cases where successful instalments are being collected, amounts to £56k at 31 March 2020 (£47k at 31 March 2019). Provision has been made to 100% of this debt.
- Private Sector and Individual debt – looking at the proportion of impaired debt that has ultimately been written off over the last three years the expected requirement for loss allowance is immaterial and has therefore not been recognised.

Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations. We must manage our financial liabilities and assets in such a way as to mitigate this risk.

In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year. In fact, the risk is more of a price risk than a liquidity risk as we can always secure replacement loans from the PWLB or other market sources but would not want to replace too large a proportion of our loans at a time of high interest rates.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.

	2019/20 £000	2018/19 £000
Under 1 year	20,493	27,100
Total short-term borrowing	**20,493**	**27,100**
Maturing in 1 to 2 years	1,143	300
Maturing in over 2 but less than 5 years	3,862	2,854
Maturing in over 5 but less than 10 years	12,300	13,700
Maturing in more than 10 years	25,213	23,000
Total long-term borrowing	**42,518**	**39,854**
Total borrowing	**63,011**	**66,954**

With our financial assets a significant proportion are recallable at any time. The PCC's CFO meets on a regular basis with the County Council's treasury management team to discuss cash flow and the appropriate level of balances to keep on call.

The maturity analysis of financial instruments is as follows:

Time to maturity (years)	31 March 2020 Liabilities £000	Assets £000	Net £000	31 March 2019 Liabilities £000	Assets £000	Net £000
Not over one	34,703	(32,796)	1,908	40,560	(40,928)	(368)
Over one but not over two	1,143	-	1,143	300	-	300
Over two but not over five	3,862	-	3,862	2,854	-	2,854
Over five but not over 10	12,300	-	12,300	13,700	-	13,700
Over 10 but not over 20	13,713	-	13,713	13,000	-	13,000
Over 20 but not over 40	11,500	-	11,500	10,000	-	10,000
TOTAL	**77,221**	**(32,796)**	**44,426**	**80,414**	**(40,928)**	**39,486**

Market Risk –Interest Rate Risk

The PCC is exposed to risk in term of his exposure to interest rate movements on his borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following impact:

- Borrowings at variable rates –the interest expense will rise;
- Borrowings at fixed rates-the fair value of liabilities will fall;
- Investments at variable rates – the interest income will rise;
- Investments at fixed rate – the fair value of the assets will fall.

Investments are measured at amortised cost and borrowings not carried at fair value, so changes in the fair value will have no impact on the CIES. However, changes in interest payable or receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on the PCC's net exposures to fixed and variable interest rates. At 31 March 2020, £57.8m of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and £19.9m net investments to variable rate risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	31 March 2020 £000
Increase in interest receivable on variable rate investments	(370)
Impact on (Surplus) or Deficit on the Provision of Services	**(370)**
Decrease in fair value of fixed rate borrowing*	(5,567)

*No impact on CIES

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

28. **Defined Benefit Post-Employment Benefits**

Accounting Policies

Police officers and police staff currently belong 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

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

The Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS), applies to other employees 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 firefighters 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 (Amendment) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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 2019, and at that date showed a funding level of 100%. 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 PCC Group and determined by the individuals pensionable pay and pensionable service. Details of how the schemes operate can be found on the LCC's "Your Pension Service" website at the link below:

www.yourpensionservice.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, PCSOs and staff of the Office of the PCC are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC Group paid an employer's contribution of 14% for employees of the Chief Constable and 13.9% for employees of his Office during 2019/20 along with a cash contribution of £2.004m towards the deficit, being the final of three annual payments (employer's contribution % for 2018/19 the same as 2019/20 with a separate cash contribution of £2.004m). The deficit contribution relating to the staff directly employed by the PCC in 2019/20 was £0.004m (£0.004m in 2018/19).

The liabilities of the Local Government Pension Scheme attributable to the PCC Group 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 2.3% for the staff employed by the PCC and the CC (2.5% in 2018/19), 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 83.

Police Officers:

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. Apart from 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 provision is 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 PCC group.

All the police officer schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group. The employers' contribution for each serving officer is common to both schemes (31% of pensionable pay from 1 April 2019). This is set nationally and is subject to review. A police pension account was set up on 1 April 2006 which administers all 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 both pension schemes have been recognised in the PCC and PCC Group balance sheets, as have entries in the PCC and PCC Group 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 Constabulary and is included in both the CC and PCC Group statements of accounts.

The liabilities of all of the schemes attributable to the PCC Group are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.3% (2.5% in 2019/20), 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 2020 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 2020 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 2019/20' 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 PCC Group balance sheet within the pensions' liabilities and shown separately in the notes to the accounts.

The change in the net pension liability must 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 does not include any investment management expenses which are allowed for under "Re-measurements". These costs are debited to the surplus or deficit on the provision of services in the 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 reflects 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 full 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. However, the figures shown this year reflect the effect of CPI Inflation to September.

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 Police General Fund balance to be 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 PCC/PCC Group Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits based on 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 Funding strategy statement. The most recent valuation was carried out as at 31 March 2019, which showed that the Fund's liabilities were covered by the fund's assets, equivalent of a funding level of 100%. The fund's employers are paying additional contributions over a period of between 13 and 16 years in order to meet any shortfall.

The weighted average duration of the PCC Group's defined benefit obligation is 21 years for staff employed by the CC and 20 years for staff employed by the PCC, measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates paying £25.1m contributions to the LGPS in 2020/21. Of this, £0.1m is expected to be paid in respect of the PCCs own staff.

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

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

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

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

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

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

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

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

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

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

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

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

Police Pensions Schemes

Governance:
These arrangements are managed by the employer, although this essentially involves administering the plan, 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 24 years), measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates paying £113.3m contributions to the Police Schemes in 2020/21.

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.

McCloud / Sargeant judgement

The Chief Constable of Lancashire, along with other Chief Constables and the Home Office, currently has around 400 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.

These claims against the Police pension scheme (the Aarons case) had previously been stayed behind the McCloud/Sergeant judgement but have now been lifted and a case management hearing was held on 25 October 2019. The resulting Order of 28 October 2019 included an interim declaration that the claimants are entitled to be treated as if they had been given full transitional protection and had remained in their existing scheme after 1 April 2015. This interim declaration applies to claimants only. However, the Government made clear that non-claimants who are in the same position as claimants will be treated fairly to ensure they do not lose out. This was re-iterated in the Written Ministerial Statement on 25 March.

The Police Minister has indicated that remedy period will not end before 2022. On 16 July 2020 the Treasury issued a consultation paper on its proposals to implement remedy in the comings months to be followed by primary legislation and scheme regulation.

Impact on pension liability

This would lead to an increase in Police Pension Scheme liabilities and our actuaries (Mercers), using specific assumptions and applying these across the Police scheme as a whole, have estimated the potential increase in scheme liabilities for Lancashire Police to be approximately 6.5% of pension scheme liabilities or £203.2m. This increase was reflected in the IAS19 Disclosure as a Past Service Cost in the 2018-19 accounts. The actuaries have highlighted that this estimate is based on one potential remedy, the potential impact of any difference in the profile of the force's membership compared with the scheme as a whole and that the figures are highly sensitive to assumptions around short term earnings growth.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Police Pension valuation is due to be reported in 2023/24, although this timetable is subject to change and forces will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Police Pension Fund Regulations 2007. These require a police authority to maintain a police pension fund into which officer and employer contributions are paid and out of which pension payments to retired officers are made. If the police pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the police authority in the form of a central government top-up grant.

Regarding the LGPS a similar adjustment to past service costs within the IAS19 Disclosure was made in 2018-19 for the McCloud judgment. This corresponds to a 0.8% £4.2m increase in liabilities. The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates.

Guaranteed Minimum Pension (GMP)

UK and European law requires pension schemes to provide equal benefits to men and women in respect of the service after 17 May 1980 and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. The 26 October 2018 Lloyds Bank court judgement provided further clarity in this area but as yet Government policy in this area has yet to be determined.

There is therefore a possibility that all public sector schemes will be required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021. Following discussions with our actuaries we have included the additional indexation liabilities in the accounting figures. The additional liabilities have been included in past service liabilities as a "past service cost". The impact on the Police Pension Fund liability is approximately £19m and on the Local Government Pension Scheme is approximately £1.4m.

Compensation Claims
The employment tribunal has agreed a process for the consideration of compensation claims between April 2020 and January 2021. The basis of claims from claimants is due in April 2020 and the identity and banding of claims proposed by claimants is due in June for non-pecuniary claims and September for pecuniary claims. As at 31st March 2020, it is not possible to estimate the extent or likelihood of these claims being successful, and therefore no liability in respect of compensation claims is recognised in these accounts.

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 PCC Group General Fund via the movement in reserves statement. The following transactions have been made during the year:

PCC GROUP	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement (CIES)								
Cost of Services:								
Service Cost comprising:								
• Current service cost	18,594	15,677	66,173	47,810	4,570	8,856	89,337	72,343
• Past service/Curtailment costs	2,353	4,606	19,007	203,195	-	-	21,360	207,801
• Admin. Expenses	339	263	-	-	-	-	339	263
Financing and Investment Income and Expenditure:								
• Net Interest expense	3,074	2,968	82,360	77,459	5,250	4,984	90,684	85,411
Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES	**24,360**	**23,514**	**167,540**	**328,464**	**9,820**	**13,840**	**201,720**	**365,818**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: Re-measurement of the net defined benefit liability, comprising:								
• Re-measurements (assets)	1,890	(30,656)	-	-	-	-	1,890	(30,656)
• Experience (gains)/losses on Liabilities	9,286	-	(3)	-	(1)	-	9,282	-
• (Gains)/losses on demographic assumptions	(19,420)	-	(55,719)	-	(3,195)	-	(78,334)	-
• Actuarial (gains)/losses arising on changes in financial assumptions	10,903	30,656	66,193	182,834	5,125	14,687	82,221	228,177
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**2,659**	**23,514**	**10,471**	**511,298**	**1,929**	**28,527**	**15,059**	**563,339**
Movement in Reserves Statement								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(24,360)	(23,514)	(167,540)	(328,464)	(9,820)	(13,840)	(201,720)	(365,818)
Actual amount charged against the General Fund Balance for pensions in the year:								
• Employers' contributions payable to scheme	10,858	9,944	86,060	85,472	-	-	96,919	95,416
• Retirement benefits paid to pensioners	-	-	-	-	3,042	3,167	3,042	3,167

A further breakdown of the LGPS scheme is shown below, which identifies those costs reflected individually in the PCC and CC financial statements.

	PCC		CC		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• Current Service Cost	234	179	18,360	15,498	18,594	15,677
• Past Service/Curtailment costs	23	57	2,330	4,549	2,353	4,606
• Admin expenses	4	3	335	260	339	263
Financing and Investment Income and Expenditure*:*						
• Net interest expense	33	32	3,041	2,936	3,074	2,968
Total Post- Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES	**294**	**271**	**24,066**	**23,243**	**24,360**	**23,514**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement						
• Re-measurements (assets)	187	(451)	1,703	(30,205)	1,890	(30,656)
• Experience (gains)/losses on Liabilities	4	-	9,282	-	9,286	-
• Actuarial (gains)/losses arising on changes in demographic assumptions	(272)	-	(19,148)	-	(19,420)	-
• Actuarial (gains)/losses arising on changes in financial assumptions	-	396	10,903	30,260	10,903	30,656
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**213**	**216**	**26,806**	**23,298**	**27,019**	**23,514**
Statement of Movement in the General Fund Balance:						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(294)	(271)	(24,066)	(23,243)	(24,360)	(23,514)
Actual amount charged against Council tax for pensions in the year:						
Employers' contributions payable to scheme	119	91	10,739	9,853	10,858	9,944

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Govt Pension Scheme		Police Pension Schemes		Injury Awards		Total	
	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019
PCC GROUP	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Present value of the defined benefit obligation	540,456	512,234	3,429,215	3,337,264	220,225	211,518	**4,189,897**	**4,061,016**
Fair value of plan assets	(394,787)	(382,725)	-	-	-	-	**(394,787)**	**(382,725)**
Net liability arising from defined benefit obligation	**145,669**	**129,509**	**3,429,215**	**3,337,264**	**220,225**	**211,518**	**3,795,110**	**3,678,291**

	Local Govt Pension Scheme	
	31 Mar 2020	31 Mar 2019
	£000	**£000**
SINGLE ENTITY PCC		
Present value of the defined benefit obligation	7,228	7,056
Fair value of plan assets	5,737	(5,659)
Net liability arising from defined benefit obligation	**1,491**	**1,397**

The liabilities show the underlying commitments that the PCC Group has in the long run to fund retirement benefits, both in respect of the staff of the Office of the PCC (£1.5m) and the police officers and staff under the direction of the CC (£3,793.6m)
The total liability of £3,795m has a considerable impact on the net worth of the PCC Group as recorded in the balance sheets, resulting in a net liability of £3,627m.
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.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of the present value of the scheme liabilities:

	Funded Liabilities: Local Govt Pension Scheme					
	PCC GROUP		PCC		CC	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000
1 April	**512,233**	**454,454**	**7,055**	**6,276**	**505,178**	**448,177**
Current Service Costs	18,594	15,677	234	179	18,360	15,498
Interest on pensions liabilities	12,727	12,196	176	168	12,551	12,028
Contributions by scheme participants	3,586	3,324	60	50	3,526	3,274
Actuarial losses –changes in demographic assumptions	(19,420)	-	(272)	-	(19,148)	-
Actuarial (gains)/losses –changes in financial assumptions	10,903	30,656	-	396	10,903	30,260
Experience (gains)/losses on liabilities	9,286	-	4	-	9,282	-
Benefits paid	(9,806)	(8,679)	(52)	(71)	(9,754)	(8,608)
Past Service/Curtailment Costs	2,353	4,606	23	57	2,330	4,549
31 March	**540,456**	**512,234**	**7,228**	**7,055**	**533,228**	**505,178**

	Unfunded Liabilities - PCC GROUP			
	Police Pension Schemes		Injury Benefits	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
1 April	**3,337,264**	**2,911,438**	**211,518**	**186,158**
Current Service Costs	66,173	47,810	4,570	8,856
Past Service costs	19,007	203,195	-	-
Interest on pensions liabilities	82,360	77,459	5,250	4,984
Contributions by scheme participants	14,418	14,228	-	-
Experience (gains)/losses on liabilities	(3)	-	(1)	-
Actuarial gains –changes in demographic assumptions	(55,719)	-	(3,195)	-
Actuarial (gains)/losses –changes in financial assumptions	66,193	182,834	5,125	14,687
Benefits paid	(100,478)	(99,700)	(3,042)	(3,167)
31 March	**3,429,215**	**3,337,264**	**220,225**	**211,518**

NB: All the unfunded liabilities relate to police officers who are/were under the direction and control of the CC.

Reconciliation of the fair value of the scheme assets:

	Funded Scheme –Local Government Pension Scheme					
	PCC GROUP		PCC		CC	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000
1 April	**382,725**	**338,515**	**5,659**	**5,005**	**377,066**	**333,510**
Interest on plan assets	9,653	9,228	143	136	9,510	9,092
Admin expenses	(339)	(263)	(4)	(3)	(335)	(260)
Employer contributions	10,858	9,944	119	91	10,739	9,853
Contributions by scheme participants	3,586	3,324	60	50	3,526	3,274
Re-measurements (assets)	(1,890)	30,656	(187)	451	(1,703)	30,205
Benefits paid	(9,806)	(8,679)	(52)	(71)	(9,754)	(8,608)
31 March	**394,787**	**382,725**	**5,738**	**5,659**	**389,049**	**377,066**

	Unfunded Schemes –PCC Group			
	Police Pension Schemes		Injury Benefits	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
1 April	**-**	**-**	**-**	**-**
Employer contributions	86,060	85,472	3,042	3,167
Contributions by scheme participants	14,418	14,228	-	-
Benefits paid	(100,478)	(99,700)	(3,042)	(3,167)
31 March	**-**	**-**	**-**	**-**

Local Government Pension Scheme assets for the PCC Group comprised:

	Fair Value Input Level (if relevant)	31 March 2020 £000	31 March 2019 £000
Cash and Cash Equivalents		**4,727**	**2,313**
Bonds			
By Sector			
Corporate	1/2	9,859	4,486
UK index-linked	3	-	13,450
Sub-Total Bonds		**9,859**	**17,936**
Property			
By Type			
Retail	2	6	9,212
Commercial	2	5,517	26,452
Sub-Total Property		**5,523**	**35,664**
Private Equity			
Overseas	3	31,552	29,407
Sub-Total Private Equity		**31,552**	**29,407**
Other Investment Funds			
Overseas Pooled Equity	1	177,479	168,669
Pooled Fixed Income	1	20,903	41,620
Credit Funds	3	62,315	27,169
Infrastructure	3	54,427	54,090
Property	3	28,002	5,857
Sub-Total Other Investment Funds		**343,126**	**297,405**
TOTAL ASSETS*		**394,787**	**382,725**

*At 31 March 2020 the share of these assets that relate to staff of the Office of the PCC are £5.737m (£5.658m at 31 March 2019)

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.

The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Valuation – Professional Standards – 2017.Avison Young have advised that as a firm, due to the COVID-19 pandemic, they can attach less weight to previous market evidence for comparison purposes and that they are faced with unprecedented circumstances on which to base a judgement. The valuation of direct property is reported based on 'material valuation uncertainty'. This does not mean that the valuation cannot be relied upon but that less certainty can be attached to the valuation than would otherwise be the case

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. Due to the uncertainty in the financial markets caused by the current COVID-19 pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty this year and that the estimated valuations may be misstated. There is a wide range of outcomes resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the actions and time needed to return to a more 'steady state' in the market. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The current COVID-19 pandemic is impacting financial markets in all sectors and at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value. As a result, there is a risk that the value of indirect property investments may be under or overstated. Valuations have therefore been reported based on 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards.

Property Funds

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

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 Human Resource Consulting Ltd, an independent firm of actuaries, estimates being based on the last full valuations of the schemes. The principal assumptions used by the actuary have been:

	Local Govt. Pension Scheme			
	PCC staff		CC Staff	
	2019/20	2018/19	2019/20	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners (LGPS):				
Men	22.3	22.8	22.3	22.8
Women	25	25.5	25	25.5
Longevity at 65 for future pensioners (LGPS):				
Men	23.8	25.1	23.8	25.1
Women	26.8	28.2	26.8	28.2
Rate of inflation: CPI	2.1%	2.2%	2.1%	2,2%
Rate of increase in salaries	3.6%	3.7%	3.6%	3.7%
Rate of increase in pensions	2.2%	2.3%	2.2%	2.3%
Rate for discounting scheme liabilities	2.4%	2.5%	2.3%	2.5%

	Police Officers 1987 Scheme		Police Officers 2006 Scheme		Police Officers 2015 Scheme		Injury Awards	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Longevity at 60 for current								
Men	27.0	27.1	27.0	27.1	27.0	27.1	24.4	24.5
Women	29.1	29.1	29.1	29.1	29.1	29.1	26.4	26.5
Longevity at 60 for future								
Men	29.2	29.1	29.2	29.1	29.2	29.1	26.6	26.4
Women	31.3	31.1	31.3	31.1	31.3	31.1	28.6	28.4
Rate of inflation: CPI	2.1%	2.2%	2.1%	2.2%	2.1%	2.2%	2.1%	2.2%
Rate of increase in salaries	3.6%	3.7%	3.6%	3.7%	n/a	n/a	3.6%	3.7%
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%	3.45%	n/a	n/a
Rate for discounting scheme liabilities	2.3%	2.5%	2.3%	2.5%	2.3%	2.5%	2.3%	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 (PCC & PCC Group):

	Impact on the Defined Benefit Obligation in the Scheme			
	PCC Group		Single Entity PCC	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	14,228	-14,228	191	-191
Rate of inflation (increase or decrease by 1%)	115,180	-115,180	1,340	-1,340
Rate for discounting scheme liabilities (increase or decrease by 1%)	-112,770	112,770	-1,310	1,310
Rate of increase in salaries (increase or decrease by 1%)	18,620	-18,620	160	-160
Rate of change in investment returns (increase or decrease by 1%)	-3,978	3,978	-58	58

Police officer pension schemes and injury benefits (PCC Group only – all pension obligations relate to officers employed by the CC):

	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)	94,710	-94,710	6,185	-6,185
Rate of inflation (increase or decrease by 1%)	676,280	-676,280	52,530	-52,530
Rate for discounting scheme liabilities (increase or decrease by 1%)	-661,900	661,900	-51,250	51,250
Rate of increase in salaries (increase or decrease by 1%)	120,280	-120,280	33,210	-33,210

Other Notes

29. Related Parties

The PCC Group 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 subjective analysis in Note 2 (Expenditure and income analysed by nature) and further analysis in Note 14 (Grant Income).

The PCC has direct control over the Group's finances 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 PCC, CC and members of both senior management teams and their immediate family members was carried out in preparing the Statement of Accounts. No material related party interests were disclosed.

Jointly Controlled Operations/Collaboration

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

The North West Regional Organised Crime Unit (formerly 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:

2018/19 PCC Group Net Exp		2019/20		
		Grant Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
£000		£000	£000	£000
652	Regional Crime Unit	-	686	686
-	Regional Asset Recovery	(167)	167	-
27	Regional Intelligence Unit	(42)	87	45
471	Confidential Unit	(31)	525	494
500	Technical Surveillance unit	(37)	548	511
278	Protected Persons Service	-	276	276
132	Prisoner Intelligence	(84)	218	134
13	Operational Security Officer	(17)	31	14
388	Operations 2	-	400	400
189	Operations 3	(262)	466	204
131	Business Support	-	184	184
2,781		**(640)**	**3,588**	**2,948**

Lancashire also contributed £0.035m in 2019/20 (£0.027m in 2018/19) to the cost of a collaboration coordinator post within Merseyside.

The following joint operations have Cheshire as lead force:

2018/19 PCC Group Net Exp		2019/20		
		Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
£000		£000	£000	£000
152	Joint Underwater Search Unit	(61)	213	152
251	Motorways and ANPR	-	18	18
25	Firearms Collaboration	-	-	-
67	Emergency Services Network	(4)	76	72
295		**(65)**	**307**	**242**

Lancashire withdrew from the Firearms Collaboration during 2018/19, and the Motorway arrangement from 1 April 2019.

The Learning and Development collaboration ended in September 2019. It was a joint operation between Lancashire and Cumbria. Lancashire's share of the costs was£2.7m (£2.6m in 2018/19).

During 2017/18 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 2019/20 UCLAN contributed to the following: -

2018/19 Exp		**2018/19 Exp**
		£000
238	Rental of accommodation/facilities	238
400	Staff/student contact	400
51	Operating budget	51
250	Capital contribution towards building works/equipment	0
939		**689**

The Constabulary made no capital contribution to building works/equipment (£0.250m in 2018/19) and £0.051m (£0.051m in 2018/19) 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, based on 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 £1.077m in 2019/20 (£1.064m in 2018/19).

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 have been reflected in the Greater Manchester Police CIES with Lancashire's CIES adjusted to show no transactions.
.

30. Publicity

The PCC Group has spent £0.946m (£0.826m in 2018/19) on 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 and the split between PCC and CC are:

	PCC		CC		Group	
	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000
Publicity	128	221	764	594	892	815
Advertising - Recruitment	-	-	52	7	52	7
Advertising - Other	2	4	-	-	2	4
	130	**225**	**816**	**601**	**946**	**826**

31. External Audit Costs

In 2019/20 the PCC Group incurred the following fees relating to external audit.

	2019/20 £000	2018/19 £000
Fees payable to Grant Thornton UK LLP, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the C*ode of Audit Practice* prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act 2014	50	39
Total Costs	**50**	**39**

Separate charges were made to the PCC and CC; the CC share was £16,938 with the balance falling on the PCC. Included in the balance falling to the PCC is £5k which represents work undertaken by the auditor in 2019/20 relating to post balance sheet adjustments relating to IAS 19.

32. Contingent Liabilities

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

As the PCC holds all usable reserves and is the responsible body for assets and liabilities, any contingent assets or liabilities will be recorded within his accounts. Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

OTHER SIGNIFICANT ACCOUNTING POLICIES

i. General

These 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. The accounting policies contained in the Code apply International Financial Reporting Standards (IFRS) as adapted for the public sector by the International Public Sector Accounting Standards (IPSAS).

Following the passing of the Police Reform and Social Responsibility Act 2011, Lancashire Police Authority was replaced with two ‘corporations sole’, the PCC and the CC. Both bodies are required to prepare separate Statements of Accounts. The Financial Statements included here represent the accounts for the PCC as a single entity and also the PCC Group. The financial statements cover the 12 months to 31 March 2020.

The term ‘Group’ is used to indicate consolidated transactions and policies of the PCC and the CC for the year ended 31 March 2020. The identification of the PCC as the holding organisation and the requirements to produce Group accounts stems from the powers and responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The PCC Group and the PCC have adopted consistent accounting policies, which are detailed below.

The accounts have been prepared on a going concern basis using an historic cost accounting convention modified to account for the revaluation of certain categories of non-current assets.

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. Accruals of Income and Expenditure

Revenue from contracts with service recipients is recognised when (or as) the goods or services are transferred to the service recipient in accordance with performance obligations in the contract.

Supplies are recorded as expenditure when they are consumed –where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.

Expenses in respect of services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and, where material, a charge made to revenue for the income that might not be collected.

Whilst all expenditure is paid for by the PCC, including the salaries of police officers and police staff, the actual recognition in the respective accounts of the PCC and CC is based on economic benefit and service delivery.

iii. Fair Value Measurement

The PCC measures some of his non-financial assets such as surplus assets and investment assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The PCC measurers the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their best interest.

When measuring the fair value of a non-financial asset, the authority considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The PCC uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the PCC group financial statements are categorised within the fair value hierarchy, as follows:

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

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. Hence all working capital balances are retained on the PCC balance sheet except for employee related creditors which are recognised in the first instance in the CC balance sheet but are funded by either unusable reserves or a short term debtor with the PCC.

v. PCC Funding of the Chief Constable's Expenditure

As the Chief Constable has no resources with which to fulfil his devolved responsibilities to provide a policing service, the expenditure is funded by the PCC. The PCC's funding of the 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. The intragroup transactions are accounted for on an accruals basis and are eliminated on consolidation in the Group financial statements. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC

vi. VAT

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

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.

viii. Transferred Debt

Outstanding debt on assets transferred from Lancashire County Council to the former Police Authority on 1 April 1995 is managed by the County Council. The PCC is now responsible for this debt and is charged an amount to cover interest and principal repayments and receives grant from central government to cover a proportion of these costs. This debt is being repaid on an equal instalment basis over 25 years.

ix. Financial assets

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

Financial assets are classified into one of three categories:

Financial assets measured at amortised cost

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

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

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

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

Interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

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

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

Any assets held in this category are held with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the PCC is not subject to a high degree of credit risk. These assets would be measured and carried at fair value.

Interest is recognised in the comprehensive income and expenditure statement on the same basis as for amortised cost financial assets, as described above.

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

Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

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

These assets are measured and carried at fair value.

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 PENSIONS ACCOUNT	NOTES	2019/20 1987 scheme £000	2019/20 2006 scheme £000	2019/20 2015 scheme	2019/20 Total £000	2018/19 1987 scheme £000	2018/19 2006 scheme £000	2018/19 2015 scheme	2018/19 Total £000
Contributions receivable									
Employer contributions	3	(5,934)	(358)	(26,971)	**(33,263)**	(5,497)	(299)	(16,713)	**(22,509)**
Early Retirements		(1,433)	-	(73)	**(1,506)**	(2,318)	-	(249)	**(2,567)**
		(7,367)	**(358)**	**(27,044)**	**(34,769)**	**(7,815)**	**(299)**	**(16,962)**	**(25,076)**
Officer Contributions		(2,740)	(145)	(11,533)	**(14,418)**	(3,699)	(158)	(10,371)	**(14,228)**
Total Contributions Receivable		**(10,107)**	**(503)**	**(38,577)**	**(49,187)**	**(11,514)**	**(457)**	**(27,333)**	**(39,304)**
Transfers In		**(99)**	**(13)**	**(770)**	**(882)**	**(39)**	**-**	**(651)**	**(690)**
Benefits Payable									
Pensions		83,087	44	540	**83,671**	79,650	43	319	**80,012**
Commutations and lump sum retirement benefits		17,063	14	178	**17,254**	20,167	(31)	201	**20,337**
Lump sum death benefits		90	-	241	**331**	-	6	-	**6**
Total Benefits Payable		**100,240**	**58**	**959**	**101,257**	**99,817**	**18**	**520**	**100,355**
Payments on Account of Leavers									
Transfer values out		-	40	11	**51**	-	-	-	**-**
Refund of contributions		-	-	52	**52**	2	-	33	**35**
Total Payments on Account of Leavers		**-**	**40**	63	**103**	**2**	**-**	33	**35**
Net amount payable/(receivable) for the year contribution from Police Fund		**90,034**	**(418)**	**(38,325)**	**51,291**	**88,266**	**(439)**	**(27,431)**	**60,396**
Contribution from the Police Fund not met by Home Office grant	**2**	**-**	**-**	**-**	**-**	**(748)**	**(41)**	**(2,275)**	**(3,064)**
Additional contribution from the Police Fund met by Home Office grant		**(90,034)**	**418**	**38,325**	**(51,291)**	**(87,518)**	**480**	**29,706**	**(57,332)**
Net amount payable/(receivable)		**-**	**-**	**-**	**-**	-	-	-	-

NET ASSET STATEMENT

31 March 2019 £000		31 March 2020 £000
(616)	Unpaid pensions benefits	(305)
-	Payment in Advance	-
616	Amounts owed from/(to) PCC's General Fund	305
-	**Net Assets**	**-**

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. Except for 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 2019/20. It summarises 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 considered 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 100

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, in 2019/20 is financed in full by top-up grant from the Home Office.

2. **Actuarial Valuation**

From 1 April 2019 the actuarial valuation changed the employer contribution rate from 21.3% to 31.0%. This additional contribution is met by the Home Office Grant and additional funding received for Police Pension Costs.

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 2019/20 was set at 31.0%.

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 2020 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 28 to the main statement of accounts.

Independent auditor's report to the Police and Crime Commissioner for Lancashire

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Police and Crime Commissioner for Lancashire (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2020 which comprise the Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Police and Crime Commissioner Movement in Reserves Statement, the Police and Crime Commissioner and Group Balance Sheet, the Police and Crime Commissioner and Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Police and Crime Commissioner as at 31 March 2020 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Financial Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Police and Crime Commissioner and group's future operational arrangements. Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Police and Crime Commissioner and group's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Police and Crime Commissioner's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Police and Crime Commissioner's and group's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Police and Crime Commissioner's and group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Police and Crime Commissioner or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of Property, plant, and equipment

We draw attention to Note 6 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of Property, plant, and equipment as at 31 March 2020. As, disclosed in Note 6 to the financial statements, market activity is being impacted in many sectors as a result of the COVID-19 pandemic. As at the valuation date, the valuer considers that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – effects of Covid-19 on the valuation of Pension Assets

We draw attention to Note 6 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension assets as at 31 March 2020. As disclosed in Note 6 to the financial statements, the value of the assets of the LGPS is dependent on a professional judgement based on information available at the time of making the valuation. The current COVID-19 pandemic is impacting financial markets in all sectors and at the valuation date it is not considered that valuers can rely upon previous comparable market evidence to fully informal opinions of value. As a result, there is a risk that the value of property investments may be under or over-stated. Valuations have therefore been reported on the basis of 'material valuation uncertainty' as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty, and a higher degree of caution, should be attached to the valuation of property holdings than would normally be the case.

Our opinion is not modified in respect of this matter.

Other information

The Chief Financial 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 Police and Crime Commissioner and group 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 group and the Police and Crime Commissioner obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other 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 Police and Crime Commissioner gained through our work in relation to the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Police and Crime Commissioner under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Police and Crime Commissioner and the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 14, the Police and Crime Commissioner 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 Financial Officer. The Chief Financial 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 2019/20, for being satisfied that they 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 Financial Officer is responsible for assessing the group's and the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the group or the Police and Crime Commissioner will no longer be provided.

The Police and Crime Commissioner is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Police and Crime Commissioner

The Police and Crime Commissioner 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 Police and Crime Commissioner'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 Police and Crime Commissioner 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 Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Police and Crime Commissioner 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 Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Police and Crime Commissioner 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 Police and Crime Commissioner for Lancashire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the Police and Crime Commissioner, 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 Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner 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 Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Murray

Iain Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

14 December 2020

Police and Crime Commissioner for Lancashire
Draft Annual Governance Statement 2019/20

Scope of Responsibility

The Police and Crime Commissioner for Lancashire (PCC/Commissioner) is responsible for ensuring that business is conducted in accordance with the relevant law and proper standards relating to financial management and corporate governance. The PCC 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 PCC 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 PCC and Constabulary 'Code of Corporate Governance' sets out both the broad legislative context and local regulatory framework, within which the PCC and the Chief Constable work to fulfil their statutory function of securing an efficient and effective police force. It also outlines how they will ensure robust and effective governance arrangements to support the exercise of those functions.

In discharging this overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of his office's affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The PCC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code of corporate governance is on our website at:

http://lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/

Production of the Annual Governance Statement by the PCC is a requirement under the Accounts and Audit Regulations 2015 and ensures that a reliable system of internal controls can be demonstrated

The Governance Framework

A framework of governance and internal control has been established, comprising the systems and processes, culture and values by which the Office of the Police and Crime Commissioner (OPCC) is directed and controlled in order to discharge the two primary statutory duties:

- to secure an effective and efficient local police service; and
- to hold the Chief Constable to account for the exercise of his functions and those of officers and staff under his direction and control.

The system of internal control is a significant part of that framework and is based on an on-going process designed to identify and prioritise the risks to the achievement of the Commissioner and Chief Constable's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

Delivering Good Governance Framework

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The Commissioner has endorsed the Code of Corporate Governance, which provides guidance on expected standards of behaviours to ensure integrity.

There is a Whistle Blowing policy in place, which together with declaration of interests from the Commissioner, staff and police officers ensures ethical standards are being monitored and adhered to. Any whistle blowing activities notified are investigated by the Professional Standards Department and appropriate action is taken.

The Section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to the Commissioner and Joint Audit and Ethics Committee or Police and Crime Panel (if appropriate).

2. Ensuring openness and comprehensive stakeholder engagement.

All meetings of the Joint Audit and Ethics Committee and the Police and Crime Panel are open to the public. Papers, reports and decisions made by the Commissioner are published on the Commissioner's website together with consultation and public surveys.

The Commissioner has a Public Engagement strategy that sets out how we engage with stakeholders, partners and the public, through a combination of collaborative working, representation on boards, stakeholder consultation meetings and attendance at public community events.

3. Defining outcomes in terms of sustainable, economic, social and environmental outcomes

The Police and Crime Commissioner publishes a four-year Police and Crime Plan that is refreshed annually. The Strategic Policing Requirement informs this, strategic assessments of the force and local partners combining into the Police and Crimes Needs assessment and reflective of emerging priorities for policing in Lancashire.

This plan is used to direct the resources of the Commissioner and Chief Constable. It informs the revenue budget on where resources are most needed and the capital investment programme to identify the priority needs for investment.

Capital investment must meet the requirements of the prudential code in that they must be affordable. There are regular reports in compliance with the code during the year.

4. Determining the intervention necessary to optimise the achievement of intended outcomes

All new areas of business require a formal business case to be submitted. These business cases go through an internal approval process within the Constabulary before sign off by the Chief Constable or Commissioner depending on the value or public interest.

The same is true of business cases relating to regional and National collaborations. The approval process is slightly different in that groups of officers form layers of approval, but the end result is the same with the Police and Crime Commissioner signing off the final business cases.

5. Developing capacity and capability

The PCC has invested, through the council tax precept, in a significant number of additional officers in recent years. In the three years starting 2020/21, the government has committed to fund an additional 20,000 officers nationally. In Lancashire, the funding from government will enable an additional 153 police officers to be recruited. This recruitment will enable the Constabulary to go some way to meet the demands placed upon it.

Significant investment has been made in new IT systems that will ensure effective and efficient policing in Lancashire. In conjunction with its introduction, every officer in the Constabulary has received training in its use to ensure the system is used to its maximum benefit and realise productivity improvements.

HMICFRS awarded Lancashire with an 'outstanding' judgement for its use of resources in 2019/20, this demonstrates that the PCC and Chief Constable ensure as much resource as possible is directed to the delivery of frontline services through being truly efficient in how those resources are used.

The PCC ensures that the Senior Officers within his office and the members of the Joint Audit and Ethics Committee that support him are clear in their strategic roles for the delivery of his police and crime plan. This is realised through the communication of the expectations placed upon these roles as part of the business planning process supported by the staff PDR regime. The PCC ensures appropriate support is provided to enable the post holders to deliver upon these requirements through training and one to one support.

6. Managing risks and performance

The PCC has an approved governance framework that is reviewed annually to ensure it remains fit for purpose.

The Joint Audit and Ethics Committee is responsible for enhancing public trust and confidence in the governance of the PCC and Lancashire Constabulary. It also assists the PCC in discharging statutory responsibilities in holding the Chief Constable to account.

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

Reporting of performance both operational and financial is undertaken on a regular basis and the Commissioner holds formal scrutiny meetings of performance each quarter. The Commissioner also meets with the Chief Constable on a regular basis to challenge where the performance is slipping.

The PCC has established a risk management policy and procedures, which cover not only strategic business risks but also significant organisational and operational risks and opportunities. Strategic level risks are routinely monitored and reviewed through the corporate decision making process. Controlled risks are documented on a dedicated risk register to ensure appropriate and proportionate monitoring whilst maintaining focus on key issues. The PCC considers risk management in discharging all core functions. The PCC’s strategic risk register is a live document that are routinely considered at all key meetings.

7. Implementing good practices in transparency, reporting and accountability

All decisions of the Commissioner are published on the website, together with any supporting information to explain why any particular option was taken.

The Police and Crime Plan together with financial strategies and internal policies are also published and reviewed regularly.

The PCC decision-making process requires oversight by both of the statutory officers (i.e. the Monitoring Officer and PCC Chief Finance Officer). All decisions made are formally recorded and made available on the PCC's website for public information and scrutiny.

The Police and Crime Panel for Lancashire comprising local authority and other local representatives, maintains a supportive check and balance on the Commissioner’s decisions and activity through the year. Part of the role of the Police and Crime Panel is to approve the Commissioner's budget and precept proposals and also the Police and Crime Plan. The Commissioner's statutory requirements in relation to the Police and Crime Panel were met in full for 2019/20.

The Police and Crime Panel meet regularly to hold the Commissioner to account for the decisions being taken. The minutes of this public meeting are published on the Blackburn with Darwen Council website.

The PCC's section 151 Officer ensures that all financial arrangements conform with the requirements set out in the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2015) where appropriate and provides appropriate evidence where they do not.

The section 151 officer ensures effective counter fraud and anti-corruption arrangements are in place through a program of training, procedure and review by the internal audit function.

The PCC is clear that good governance arrangements must be in place for all partnership arrangements. The proposed governance arrangements are reviewed as part of the decision process undertaken and ultimately signed off by the PCC. This provides the PCC with the necessary assurance that appropriate governance arrangements are in place before any partnership activity can commence.

The PCC ensures there are effective arrangements in place for the safe collection, use and sharing of data. Data sharing agreements are in place with the PCC's partners and every employee undertakes annual training to reinforce their responsibilities in relation to the management of data.

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 Police and Crime Commissioner 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.

In her annual report for 2019/20 the Head of Internal Audit stated that "the Joint Audit and Ethics Committee can take moderate assurance that Lancashire Constabulary and the Office of the PCC operates a generally sound system of risk management, governance and internal control".

Moderate assurance is defined as *"the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process."*

The PCC has been assured that all of the actions identified as required by the internal audit review has been implemented or are to be implemented shortly.

Review of effectiveness

The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal audit and the systems of internal control. 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 that is used to support the certificates of assurance signed by each of the chief officer team.

In March 2020, the Covid 19 pandemic affected the operational activity of the PCC and Constabulary re-directing frontline resources in a significant way. The governance of the organisation adjusted to reflect the different ways of working that the organisation has undertaken including all OPCC staff working from home, Scrutiny and Audit meetings taking place virtually and remote authorisation for decisions and payments. It is the view of the senior team that these changes have had no impact on the effectiveness of governance within the organisation.

Considering all these factors, the PCC and Constabulary systems of internal control for 2019/20 are considered both satisfactory and effective.

The roles and processes applied in maintaining and reviewing the effectiveness of the governance framework are outlined below:

ENSURING EFFECTIVE GOVERNANCE OF ORGANISATIONAL RISKS

Area for action identified for 2019/20

1. **Financial Pressures**

The redesign of operational policing has been introduced during 2019/20 and the information delivered through the Force Management Statement has driven the allocation of resources. Investment in additional resources has been realised through an increase to the council tax precept, this has improved public confidence in the localities where this resource has been deployed.

The national programme for the delivery of additional officers was announced in 2019/20 and the initial steps have been taken to deliver Lancashire's share of this increase.

Strong financial control through the monitoring process has continued and this has been recognised with an 'outstanding' rating from HMICFRS for use of resources.

2. **Brexit**

Significant planning has taken place for the impact of Brexit throughout the year. Whilst this activity has been paused briefly due to Covid 19, the activity has resumed and will continue into the new year.

3. **Demand pressures**

The type of demand faced by the Constabulary continues to change with significant increases in Child Sexual Exploitation, Domestic Violence and Serious and Organised Crime. In addition, the pressure on the service due to individuals with mental health conditions continues to increase.

The operational redesign implemented during the year enables the constabulary to meet these demands and provide local policing that is more visible and increasingly effective in meeting such demand.

The implementation will continue in to 2020/21.

Areas for Action in 2020/21

1. **Financial Pressures**

It is unclear when government will announce the funding to be made available to policing in 2021/22 and therefore what amount will be available.

It is clear that the impact of COVID will be significant for the economy and in turn, the amount of funding government can provide.

A commitment to continue to deliver the 'uplift' programme for 20,000 additional officers by March 2023 has been made but no other commitment on the level of funding that will be provided has been made.

This uncertainty has an impact for the budgetary and financial planning process.

Action to address: The PCC and Constabulary have a well-established financial /business planning process, which will reflect the uncertainty for funding and develop a number of saving proposals to meet any pressure that the funding allocation might produce

2. **Impact of COVID**

In addition to the financial impact for government of the COVID pandemic, there are operational issues for the Constabulary to address.

'Enforcing' government guidance brings operational and ethical strain and the Constabulary has a Gold group to manage the situation on a day-to-day basis,

Crime levels have dropped during lockdown but are anticipated to increase again when lockdown eases, operational activity will flex to reflect these changes.

Action to address: On-going Gold group will manage COVID impact on operational activity until 'normality' returns.

3. Demand pressures

It is clear that the demands placed upon the policing service continue to change beyond the impact of COVID. The type of crime being dealt with is increasingly complex and resource intensive and the amount of these types of crime is rising significantly.

In addition, cuts to services in other areas of the public sector, such as mental health care, mean that more people are committing crimes or presenting a risk of harm to either themselves or other members of the public. This clearly represents a further increase in the demands placed upon policing resources.

These, along with the other key risks identified in the risk register, will be monitored closely and regularly reported upon to the Joint Audit and Ethics Committee.

Signed: Clive Grunshaw	**Signed:** Angela Harrison
Clive Grunshaw Police and Crime Commissioner for Lancashire	Angela Harrison Director of the Office of the Police and Crime Commissioner for Lancashire
Date: 14th December 2020	**Date: 14th December 2020**

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.

Assets held for Sale
Assets that are no longer needed by the PCC and which he is selling.

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

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'non-current assets'.

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'.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital reserves
Amounts set aside to support future capital projects.

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.

Non-current assets
The classes of non-current assets required to be included in the accounting statements are:

Property Plant & Equipment

- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Assets under construction

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.

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

Current Value

For land and buildings, the amount that would be exchanged for the asset in its existing use.

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.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financing charges
Repayments on amounts loaned to the PCC by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Non-current 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.

Intangible assets
Assets which do not have a physical form. Examples include internally developed systems, computer software, brand names, patents and copyrights.

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

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

Investing The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment Property
Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

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

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

Minimum revenue provision
The minimum amount (as laid down in statute) that the PCC must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

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.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

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

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

Non-operational assets
Assets which are not in use.

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 (IAS 19)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

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

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

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

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 purpose.