POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

STATEMENT OF ACCOUNTS

2013/14

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

STATEMENT OF ACCOUNTS 2013/14

CONTENTS

EXPLANATORY FOREWORD

Background

One of the key reforms of the Police Reform and Social Responsibility Act 2011 was to replace Police Authorities with elected Police and Crime Commissioners (PCCs). 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. At the same time a separate corporation sole called The Chief Constable of Lancashire was created and made responsible for Lancashire Constabulary.

Under the Act, from 22 November 2012, PCCs and CCs are deemed to be separate entities and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 which means that they are both required to produce accounts which are subject to audit.

The Chief Constable is, in technical terms, a 100% subsidiary of the PCC and in accounting terms this means that, although the Chief Constable 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 Financial Statements of the Police and Crime Commissioner and Chief Constable

The Accounts and Audit (England) Regulations 2011 require authorities to follow "proper practices in relation to accounts" when preparing the accounts. The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (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 2013/14 Statement of Accounts is also prepared in accordance with the Code and the Service Reporting Code of Practice 2013/14.

http://www.lancashire.police.uk/about-us/audit-of-accounts

The accounts reflect the current legislative framework as well as the local arrangements operating in practice. Key elements of this framework include:

- The Police Reform and Social Responsibility Act 2011 (the Act);
- Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013
- The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2013;
- Scheme of Governance for the PCC and the Chief Constable;
- PCC and CC Financial Regulations;
- PCC and CC Contract Standing orders.

Briefly summarising the position, the PCC is responsible for the finances of the whole group and controls the assets, liabilities and reserves (excluding liabilities and reserves held in relation to staff under the direction and control of the CC) which were transferred from the former Police Authority on 22nd November 2012. The PCC receives all the income and funding and makes all the payments for the Group, including payments to employees, from the Police Fund. In turn the CC fulfils his functions under the Act within an annual devolved budget, set by the PCC in consultation with the CC. The Scheme of Governance and Financial Regulations, referred to above, are in operation between the two bodies

determining their respective responsibilities during the first stage of transition. All funding for the CC must come from the PCC.

A Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet have been prepared for the CC to reflect the day to day direction and control that the CC exercises over Police Officers, Police Staff and PCSOs along with the running costs required to deliver a policing service in line with the Police and Crime Plan. The CC's CIES reflects the gross cost of policing; it recognises no income other than the funding received from the PCC. All operating income, as with grants and contributions, is recognised in the first instance in the PCC's CIES. As the CC has no resources with which to fulfil his delegated responsibilities the figures in the CIES represents the PCC's resources consumed at the request of the Chief Constable to undertake day-to-day policing. The PCC resources consumed at the request of the Chief Constable are met in full in the CC's CIES by the PCC in the form of Intra-Group Funding, which is also reflected in the PCC CIES. The deficit on provision of services remaining in the CC CIES represents technical adjustments that are reversed out in the Movement in Reserves Statement (MIRS).

The accounting arrangements between the PCC and CC during the first stage of transition are detailed more fully in the accounting policies.

Contents of the Statement of Accounts

The Statement gives the reader an overall impression of the finances of the PCC and the PCC Group for the financial year ended on 31 March 2014 (referred to as 2013/14).

The various sections contained within the consolidated financial statements are:

Movement in Reserves Statement for the PCC and the PCC Group - The statement shows the movement in the year on the different reserves held by the PCC and the PCC Group, analysed into usable and unusable reserves. During 2013/14 total reserves of the Group increased by £51m (PCC increased by £26m): an increase in usable reserves of £10m (PCC also £10m) and unusable reserves of £41m (PCC increased by £16m);

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.

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 an increase of £14.2m in cash and cash equivalents during 2013/14.

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 2013/14

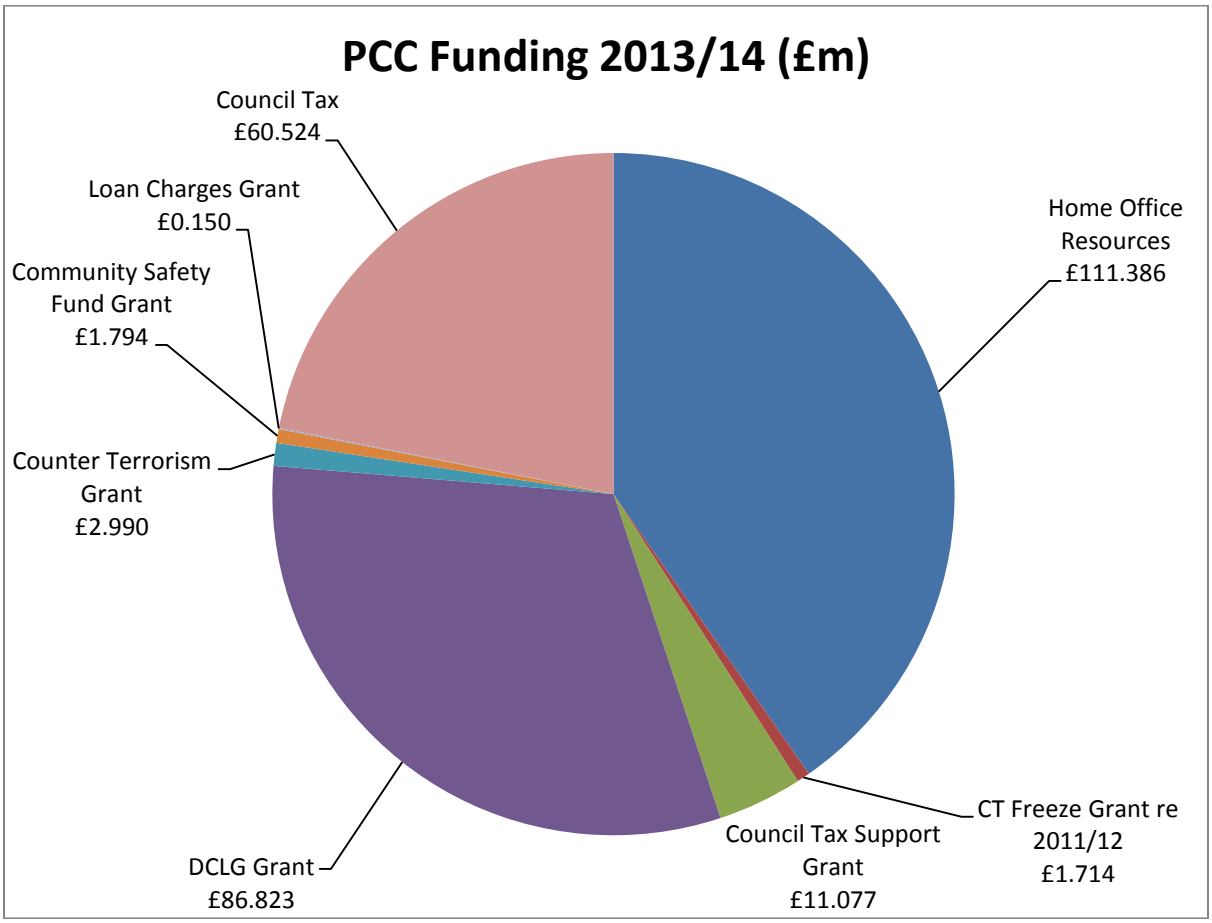
Annual Governance Statement – This is a statement by the PCC which states his position on governance issues, and which provides assurances on the systems of control which are maintained and on the way he conducts his business.

As the PCC Group position does, at this stage of transition, present the most meaningful picture, from a reader's perspective, of the activities of the PCC and the Chief Constable, 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 PCC.

Financial performance of the Group

Revenue Budget

The Lancashire PCC's spending power in respect of 2013/14 was agreed at £276.458m and, after taking account of specific grants, the net budget requirement was set in February 2013 at £258.733m, a reduction of 2.5% on the 2012/13 budget.



In order to fund the budget requirement external resources totalling £198.209m were received from the Home Office. After taking into account the impact of some minor changes to specific grant funding, this represented a reduction of 1.6% in external resources, equal to the reduction applied to all English PCCs. This left £60.524m to be raised from the Council Tax. The resultant Council Tax equated to a charge for a Band D property of £152.92, an increase of 1.99% over the 2012/13 charge.

The 2013/14 Revenue Outturn

The revenue budget for the PCC of £258.733m was increased during the year through the planned use of balances to £259.259m in order to meet known pressures. The year-end position shows spending of £253.870m giving an underspend of £5.389m. This position reflects the transfers of £6.823m to the transitional reserve that were agreed earlier in the year.

A detailed report is available at this link:

http://www.lancashire-pcc.gov.uk/Document-Library/Decision-2014-07---2013-14-Outturn-report-Final-10-6-14.pdf

The main reasons for this underspend are:
- Early achievement of savings from a number of organisational reviews that are in place to deliver long term savings;
- Management of vacancies and overtime for police officers and police staff;
- General spend less approach to all budgets.

The delivery of Organisational Reviews is a major element of the current financial strategy for the organisation. A number of reviews have been completed ahead of schedule delivering savings earlier than planned. This places the PCC in a good position to deal with the future financial challenges as these savings will be required to contribute to meeting the budget reductions in 2014/15.

The year-end underspend on the revenue budget in 2013/14 has been applied as follows;

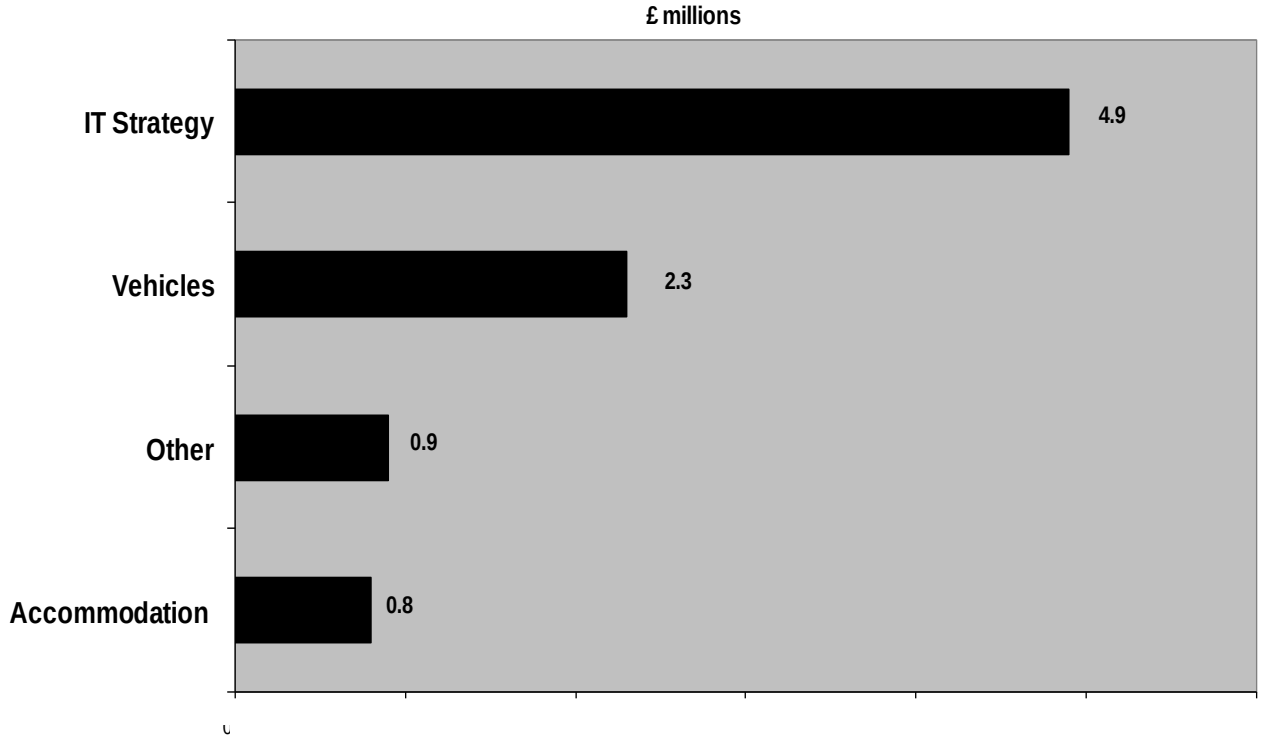
	£m
Transfer to the transitional change reserve	3.992
Transfer to the Operational Policing reserve	0.632
Transfer to DFM reserves	0.765
	5.389

This has resulted in the following position on reserves: the general reserves (DFM and Police General Fund) at year end are £12.5m and represent around 4.8% of the 2013/14 budget of £258.733m. Other earmarked reserves total £23.2m including £13m held in the transitional change reserve to mitigate against the risks of implementing the change programme. The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the Organisational Change programme and the future reductions in funding. Further detail on movement in reserves can be found in the Movement in Reserves Statement and in Note 7 to the accounts.

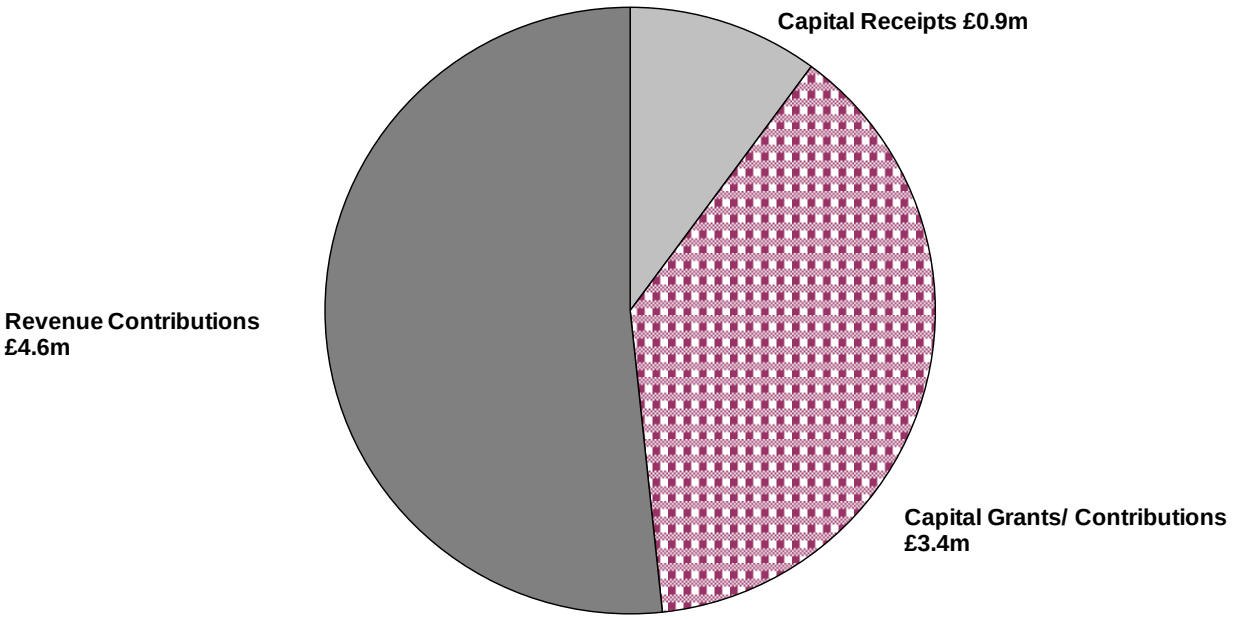
Capital Funding

The 2013/14 Capital Programme was initially approved at £14.3m in February 2013 and included £9.6m new starts and £4.7m of deferred schemes from the 2012/13 programme. The programme reflected the strategic requirements in relation to the ICT, Estates and Vehicle infrastructure. New approvals in year along with some further slippage from 2012/13 increased the final capital programme for 2013/14 to £18.5m. The Capital Programme was financed through a mix of grant, capital receipts, revenue contributions and £4.0m prudential borrowing

A total of £8.9m was spent on the capital programme during 2013/14 which was £9.6m less than originally planned, with the underspends and reasons for these being reported to the PCC throughout the year. Of this, £4.0m was carried forward to 2014/15 as these schemes had not commenced within the anticipated timeframe. There was also slippage of £5.5m which has also been carried forward to enable the schemes to be completed and a further underspend of £0.1m reflecting the fact that some schemes had been completed at a lower cost than anticipated. After allowing for depreciation, impairment and the disposal of assets, the value of long term assets held at 31 March 2014 is estimated at £182m. The graph below shows our major areas of capital spending during the year:



The 2013/14 capital expenditure was financed through a mix of grant, capital receipts, and revenue contributions, as represented in the chart below:



The financing of capital expenditure generates a borrowing requirement. . 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. All external borrowing, when required, is currently secured from the Public Works Loan Board (PWLB). Most new borrowing will be unsupported borrowing for which the PCC does not receive any financial assistance from the Government . All of the PCC's debt, used to finance his Capital Programme, is held with the PWLB with no new loans being raised during 2013/14 as the borrowing requirement was met in the short term from cash balances. This was considered more cost effective than borrowing at this time. The borrowing strategy is outlined in the 2013/14 Treasury Management Strategy, a copy of which can be found on the PCC's website at the following link:

http://www.lancashire-pcc.gov.uk/Document-Library/2012-15-Treasury-Management-Policy--Strategy.pdf

The PCC maintains a rolling five year capital forecast and resources are set aside to finance future capital expenditure. As at 31 March 2014 the following usable reserves are earmarked to support capital expenditure:

	£m
Capital Receipts Reserve	6.885
Capital Funding Reserve	5.634
Capital Grant Unapplied	0.006
	12.525

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 pay 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 2014 the net pensions' liability of the PCC Group, calculated by the actuary, is £2,647m, (a reduction of £25m over the previous year's figure of £2,672m). The net liability is split between the Local Government Pension Scheme (£71m) and the Police Pension Schemes (£2,576m); the police schemes are unfunded, ie 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 2014 is £0.513m.

Other elements affecting the change in liability are shown in detail in Note 27 to the accounts.

Significant provisions, contingent assets/ liabilities or material write-offs

Provisions exist to meet claims under self-insurance arrangements for both combined employer's and public liability and vehicles. These provisions are reviewed on an ongoing basis and the value of these provisions at 31 March 2014 is £2.4m

Changes in accounting policies

International Accounting Standard (IAS) 19 requires that liabilities in respect of employee benefits, both short term (eg untaken holidays or time off in lieu –accumulated absences) and long term (eg pensions liabilities) are recognised in the first instance in the CIES and Balance Sheet of the Chief Constable. In the 2012/13 accounts the PCC's ultimate responsibility for these liabilities was recognised by intragroup and pensions' deficit funding in the single entity CIES of both the PCC (expenditure) and CC (Income)and long and short term debtors and creditors in the PCC and CC single entity balance sheets.

However, although the PCC as an entity has ultimate responsibility for these liabilities, the resources are only provided to the CC on an annual basis to fund actual payments/employer contributions. To reflect this arrangement in the accounts of the PCC and CC would mean that the liabilities for staff under the direction and control of the CC would be reflected on the balance sheet of the CC, as in 2012/13, but the funding of these liabilities would remain with the CC, removing the long/short term debtors with the PCC.

Since the preparation of the 2012/13 financial statements the status of the Chief Constable has changed. The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013 was laid before Parliament on the 17th September 2013 and is effective from 31st March 2014. This permits CCs to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply to a Local Authority.

In practical terms this means that outstanding long term pensions' liabilities and short term employee benefit liabilities can be funded in the Chief Constables own balance sheet by unusable reserves with the PCC's ultimate liability being reflected in the PCC Group Balance Sheet. The impact on individual financial statements is shown in more detail in Note 2 (Prior year Adjustments).

There has been one further significant change in accounting policy this year: International Accounting Standard IAS19 (Employee Benefits) has been revised (IAS19R) with the most significant impact being around Post-Employment Benefits (Pensions). The changes have impacted on some terminology, some minor measurement changes, which have no impact

on the overall liability on the balance sheet but do involve changes on the face of the other financial statements. More detail around these changes can be found in Note 27 (Defined benefits Post-Employment Benefits). They also require a significant increase in the number of disclosure notes to the accounts which can also be seen in Note 27.

The impact of the above changes requires a re-statement of the 2012/13 comparative figures which can be seen in Note 2 (Prior Period Adjustments).

Material Events after the Balance Sheet date

Under the Police Reform and Social Responsibility Act all PCC's are required to undertake a Stage 2 transfer of staff, assets, liabilities and land transferred previously from the Police Authority to the PCC at Stage 1. The Stage 2 transfer took place in April 2014 under which all Police Officers and staff, except those within the immediate Office of the PCC, were transferred to the Chief Constable. Both organisations retain use of a single bank account and all assets, liabilities and income are under the control of the PCC. All contracts signed by the organisation are under the name of the PCC.

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

http://www.lancashire-pcc.gov.uk/Document-Library/201401SchemeofConsent.pdf

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

Financial Outlook

The PCC in conjunction with the Chief Constable has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that, over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of £80m of savings are likely to be required over the period 2011/12 – 2017/18 of which £60m has already been identified.

The longer term financial position is reviewed on a regular basis and further savings of c £20m are currently forecast to be required for the period 2015/16 to 2017/18. 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 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 2015/16 and future years remains uncertain. Specific Risks are:

- ***IPCC Top-Slice***

In 2015/16 there is a specific uncertainty in respect of: the level of 'top-slice' that will be applied to fund the IPCC. A total of £18m was top-sliced in 2014/15 and whilst the 2015/16 figures have not yet been announced they are expected to be higher than that applied in 2014/15.

- ***Home Office Reductions***

The ability of the Home Office to protect police budgets from reductions to the Home Office departmental funding is unknown and must be considered a significant risk going forward.

- ***Funding Predictions***

There is also greater uncertainty on the level of funding for PCC's beyond 2015/16 as the Chancellor has stated on numerous occasions that the current period of austerity will continue until at least 2020. The current forecast of reductions in funding in 2016/17 and 2017/18 reflects the current trajectory of the changes that have been implemented however there is a risk that this may underestimate future years cuts which would clearly impact upon the savings required.

- ***Cost Pressures***

There is also a risk that pay inflation will rise above the current forecast which is assumed at a 1% increase each year. Private sector pay has started to increase and pay increases generally are above inflation, this will undoubtedly lead to pressure for police officers and staff pay to increase at a level above 1% in future years.

- ***Formula Review***

The Home Office is to carry out a review of the funding formula that is used to calculate funding allocations to PCCs. The introduction of any new formula brings with it additional uncertainty and risk in terms of planning for future years. The position will however be closely monitored and the Commissioner's financial forecast updated on a regular basis to ensure it reflects the most up to date position. The Chief finance Officer is involved in detailed discussions around the funding formula through the Society for Police and Crime Commissioners' Treasurers.

Future Developments

Under the Police Reform and Social Responsibility Act all PCC's are required to undertake a Stage 2 transfer of staff, assets, liabilities and land previously transferred from the Police Authority to the PCC at Stage 1. The Stage 2 transfer took place in April 2014 under which all Police Officers and staff except those within the immediate Office of the PCC were transferred to the Chief Constable. A new framework of governance arrangements has been provided to manage the organisation following the Stage 2 transfer. The governance framework reinforces the PCCs position in control of the budget whereby the Chief Constable has a budget delegated to him by the PCC against which performance is monitored and reported to the PCC throughout the year.

The level of reserves that are held by the PCC have increased over the year. Included in the reserves is the transition reserve that was set up to manage the costs and risks associated with the downsizing of the organisation. These reserves will be called on in future years as the downsizing continues. It is also anticipated that some significant investment in capital, particularly around ICT systems, will be require in future years. Investing in these will help deliver savings in the longer term. A refresh of the ICT strategy is currently underway and will be considered during 2014/15. Funding of the strategy will be considered as part of this process.

LISA KITTO FCCA
CFO to the Police and Crime
Commissioner

27 JUNE 2014

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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.

I approve these Statements of Accounts for the year-ending 31 March 2014

CLIVE GRUNSHAW

Police and Crime Commissioner for Lancashire

30 September 2014

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 2014 and for the year then ended.

LISA KITTO FCCA
CFO to the Police and Crime Commissioner for Lancashire

30 September 2014

PCC GROUP MOVEMENT IN RESERVES STATEMENT 2013/14

This statement shows the movement in the year on the different reserves held by the PCC Group, analysed into "usable reserves" (ie 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	Earmarked General Fund Reserves £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 2013		**9,873**	**17,645**	**5,185**	**8**	**32,711**	**(2,549,730)**	**(2,517,019)**
Deficit on the provision of services on an accounting basis		(99,232)	-	-	-	(99,232)	-	(99,232)
Pensions re-measurement gains		-	-	-	-	-	133,585	133,585
Gain on revaluation of non-current assets		-	-	-	-	-	16,992	16,992
Total Comprehensive Income & (Expenditure)		**(99,232)**	**-**	**-**	**-**	**(99,232)**	**150,577**	**51,345**
Adjs between accounting basis & funding basis under regulations:								
Depreciation, impairment and amortisation charged to CIES		12,846	-	-	-	12,846	(12,846)	-
Revaluation gains charged to CIES		(2,597)	-	-	-	(2,597)	2,597	-
Capital grants and contributions credited to CIES		(3,387)	-	-	-	(3,387)	3,387	-
Change in fair value of Investment properties		(147)	-	-	-	(147)	147	-
Amounts of non-current assets written off on disposal or sale		2,868	-	-	-	2,868	(2,868)	-
Statutory provision for financing of capital investment (MRP)		(1,366)	-	-	-	(1,366)	1,366	-
Capital Expenditure charged against the General Fund		(4,538)	-	-	-	(4,538)	4,538	-
Reversal of IAS19 pensions charges made to the CIES		184,827	-	-	-	184,827	(184,827)	-
Actual employers pension contributions paid		(75,915)	-	-	-	(75,915)	75,915	-
Capital Grants and contributions unapplied, credited to CIES		(6)	-	-	6	-	-	-
Application of previous years' grants to fund capital expenditure		-	-	-	(8)	(8)	8	-
Proceeds on sale of non-current assets		(2,639)	-	2,639	-	-	-	-
Use of capital receipts reserve to finance capital expenditure		-	-	(939)	-	(939)	939	-
Difference in council tax income between accounting and funding basis		(1,101)	-	-	-	(1,101)	1,101	-
Difference in employee benefits charged to CIES between accounting and funding basis		(1,367)	-	-	-	(1,367)	1,367	-
Total Adjustments		**107,478**	**-**	**1,700**	**(2)**	**109,176**	**(109,176)**	**-**
NET INCREASE /(DECREASE) BEFORE TRANSFERS TO EARMARKED RESERVES		**8,246**	**-**	**1,700**	**(2)**	**9,944**	**41,401**	**51,345**
Transfers (to)/from Earmarked Reserves	7	(8,246)	8,246	-	-	-	-	-
Balance at 31 March 2014		**9,873**	**25,891**	**6,885**	**6**	**42,655**	**(2,508,329)**	**(2,465,674)**

PCC GROUP MOVEMENT IN RESERVES STATEMENT 2012/13 Comparative (Restated)

This statement shows the movement in the year on the different reserves held by the PCC Group, analysed into "usable reserves" (ie 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	Earmarked General Fund Reserves £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 2012		**8,981**	**17,366**	**2,723**	**358**	**29,428**	**(2,151,128)**	**(2,121,700)**
Deficit on the provision of services on an accounting basis (restated)		(101,604)	-	-	-	(101,604)	-	(101,604)
Pensions re-measurement losses							(292,953)	(292,953)
Loss on revaluation of non-current assets							(762)	(762)
Total Comprehensive Income & (Expenditure) -restated		**(101,604)**	**-**	**-**	**-**	**(101,604)**	**(293,715)**	**(395,319)**
Adjs between accounting basis & funding basis under regulations –								
Depreciation, impairment and amortisation charged to CIES		12,553	-	-	-	12,553	(12,553)	-
Revaluation gains charged to CIES		(1,107)	-	-	-	(1,107)	1,107	-
Capital grants and contributions credited to CIES		(3,042)	-	-	-	(3,042)	3,042	-
Change in fair value of Investment properties		(225)	-	-	-	(225)	225	-
Amounts of non-current assets written off on disposal or sale		4,243	-	-	-	4,243	(4,243)	-
Statutory provision for financing of capital investment (MRP)		(1,377)	-	-	-	(1,377)	1,377	-
Capital Expenditure charged against the General Fund		(4,258)	-	-	-	(4,258)	4,258	-
Reversal of IAS19 pensions charges made to the CIES		174,532	-	-	-	174,532	(174,532)	-
Actual employers pension contributions paid		(74,668)	-	-	-	(74,668)	74,668	-
Capital Grants and contributions unapplied, credited to CIES		(8)	-	-	8	-	-	-
Application of grants to fund capital expenditure		-	-	-	(358)	(358)	358	-
Proceeds on sale of non-current assets		(3,079)	-	3,079	-	-	-	-
Use of capital receipts reserve to finance capital expenditure		-	-	(617)	-	(617)	617	-
Difference in council tax income between accounting and funding basis		321	-	-	-	321	(321)	-
Difference in employee benefits charged to CIES between accounting and funding basis		(1,110)	-	-	-	(1,110)	1,110	-
Total Adjustments		**102,775**	**-**	**2,462**	**(350)**	**104,887**	**(104,887)**	**-**
NET INCREASE /(DECREASE) BEFORE TRANSFERS TO EARMARKED RESERVES		**1,171**	**-**	**2,462**	**(350)**	**3,283**	**(398,602)**	**(395,319)**
Transfers (to)/from Earmarked Reserves	7	(279)	279	-	-	-	-	-
Balance at 31 March 2013		**9,873**	**17,645**	**5,185**	**8**	**32,711**	**(2,549,730)**	**(2,517,019)**

PCC SINGLE ENTITY MOVEMENT IN RESERVES STATEMENT 2013/14

This statement shows the movement in the year on the different reserves held by the PCC analysed into "usable reserves" (ie 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	Earmarked General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total PCC Group Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013		**9,873**	**17,645**	**5,185**	**8**	**32,711**	**128,381**	**161,092**
Surplus on the provision of services on an accounting basis		8,216	-	-	-	8,216	-	8,216
Pensions re-measurement gains		-	-	-	-	-	535	535
Gain on revaluation of non-current assets		-	-	-	-	-	16,992	16,992
Total Comprehensive Income & (Expenditure)		**8,216**	**-**	**-**	**-**	**8,216**	**17,527**	**25,743**
Adjs between accounting basis & funding basis under regulations:								
Depreciation, impairment and amortisation charged to CIES		12,846	-	-	-	12,846	(12,846)	-
Revaluation gains charged to CIES		(2,597)	-	-	-	(2,597)	2,597	-
Capital grants and contributions credited to CIES		(3,387)	-	-	-	(3,387)	3,387	-
Change in fair value of Investment properties		(147)	-	-	-	(147)	147	-
Amounts of non-current assets written off on disposal or sale		2,868	-	-	-	2,868	(2,868)	-
Statutory provision for financing of capital investment (MRP)		(1,366)	-	-	-	(1,366)	1,366	-
Capital Expenditure charged against the General Fund		(4,538)	-	-	-	(4,538)	4,538	-
Reversal of IAS19 pensions charges made to the CIES		186	-	-	-	186	(186)	-
Actual employers pension contributions paid		(89)	-	-	-	(89)	89	-
Capital Grants and contributions unapplied, credited to CIES		(6)	-	-	6	-	-	-
Application of grants to fund capital expenditure		-	-	-	(8)	(8)	8	-
Proceeds on sale of non-current assets		(2,639)	-	2,639	-	-	-	-
Use of capital receipts reserve to finance capital expenditure		-	-	(939)	-	(939)	939	-
Difference in council tax income between accounting and funding basis		(1,101)	-	-	-	(1,101)	1,101	-
Total Adjustments		**30**	**-**	**1,700**	**(2)**	**1,728**	**(1,728)**	**-**
NET INCREASE /(DECREASE) BEFORE TRANSFERS TO EARMARKED RESERVES		**8,246**	**-**	**1,700**	**(2)**	**9,944**	**15,799**	**25,743**
Transfers (to)/from Earmarked Reserves	7	(8,246)	8,246	-	-	-	-	-
Balance at 31 March 2014		**9,873**	**25,891**	**6,885**	**6**	**42,655**	**144,180**	**186,835**

PCC SINGLE ENTITY MOVEMENT IN RESERVES STATEMENT 2012/13 Comparative (Restated)

This statement shows the movement in the year on the different reserves held by the PCC analysed into "usable reserves" (ie 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	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Reserves £000
Balance at 31 March 2012		**8,981**	**17,366**	**2,723**	**358**	**29,428**	**135,516**	**164,944**
Deficit on the provision of services on an accounting basis (restated)		(2,914)	-	-	-	(2,914)	-	(2,914)
Pensions re-measurement losses							(176)	(176)
Loss on revaluation of non-current assets							(762)	(762)
Total Comprehensive Income & (Expenditure) -restated		**(2,914)**	**-**	**-**	**-**	**(2,914)**	**(938)**	**(3,852)**
Adjs between accounting basis & funding basis under regulations –								
Depreciation, impairment and amortisation charged to CIES		12,553	-	-	-	12,553	(12,553)	-
Revaluation gains charged to CIES		(1,107)	-	-	-	(1,107)	1,107	-
Capital grants and contributions credited to CIES		(3,042)	-	-	-	(3,042)	3,042	-
Change in fair value of Investment properties		(225)	-	-	-	(225)	225	-
Amounts of non-current assets written off on disposal or sale		4,243	-	-	-	4,243	(4,243)	-
Statutory provision for financing of capital investment (MRP)		(1,377)	-	-	-	(1,377)	1,377	-
Capital Expenditure charged against the General Fund		(4,258)	-	-	-	(4,258)	4,258	-
Reversal of IAS19 pensions charges made to the CIES		138	-	-	-	138	(138)	-
Actual employers pension contributions paid		(79)	-	-	-	(79)	79	-
Capital Grants and contributions unapplied, credited to CIES		(8)	-	-	8	-	-	-
Application of grants to fund capital expenditure		-	-	-	(358)	(358)	358	-
Proceeds on sale of non-current assets		(3,079)	-	3,079	-	-	-	-
Use of capital receipts reserve to finance capital expenditure		-	-	(617)	-	(617)	617	-
Difference in council tax income between accounting and funding basis		321	-	-	-	321	(321)	-
Difference in employee benefits charged to CIES between accounting and funding basis		5	-	-	-	5	(5)	-
Total Adjustments		**4,085**	**-**	**2,462**	**(350)**	**6,197**	**(6,197)**	**-**
NET INCREASE /(DECREASE) BEFORE TRANSFERS TO EARMARKED RESERVES		**1,171**	**-**	**2,462**	**(350)**	**3,283**	**(7,135)**	**(3,852)**
Transfers (to)/from Earmarked Reserves		(279)	279	-	-	-	-	-
Balance at 31 March 2013		**9,873**	**17,645**	**5,185**	**8**	**32,711**	**128,381**	**161,092**

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

2012/13 Comparator (Restated)				2013/14		
Gross Exp £000	**Gross Inc £000**	**Net Exp £000**		**Gross Exp £000**	**Gross Inc £000**	**Net Exp £000**
140,894	(14,219)	**126,675**	Local Policing	139,174	(8,079)	**131,095**
21,710	(277)	**21,433**	Dealing with the Public	23,357	(382)	**22,975**
21,778	(1,156)	**20,622**	Criminal Justice	22,356	(1,236)	**21,120**
15,022	(4,117)	**10,905**	Road Policing	16,624	(5,719)	**10,905**
23,636	(3,066)	**20,570**	Specialist Operations	19,892	(1,550)	**18,342**
19,015	(658)	**18,357**	Intelligence	18,068	(611)	**17,457**
55,615	(2,809)	**52,806**	Specialist Investigation	57,982	(3,268)	**54,714**
11,087	(235)	**10,852**	Investigative Support	10,912	(328)	**10,584**
8,967	(5,796)	**3,171**	National Policing	10,508	(5,755)	**4,753**
1,974	(221)	**1,753**	Corporate and Democratic Core	1,461	(120)	**1,341**
429	-	**429**	Non-Distributed Costs	1,065	-	**1,065**
320,127	**(32,554)**	**287,573**	**Net Cost of Services**	**321,399**	**(27,048)**	**294,351**
		(32,682)	Other Operating Income & Expenditure(Note 9)			**(35,522)**
		114,779	Financing & Investment Income & Expenditure (Note 10)			**116,422**
		(268,066)	Taxation & non-specific grant income (Note 11)			**(276,019)**
		101,604	**(Surplus)/Deficit on Provision of Services**			**99,232**
		762	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment assets			**(16,992)**
		292,953	Re-measurements of pension assets/liabilities			**(133,585)**
		293,715	**Other Comprehensive (Income) & Expenditure**			**(150,577)**
		395,319	**Total Comprehensive (Income) & Expenditure**			**(51,345)**

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.

2012/13 Comparator Net Exp (Restated) £000		2013/14 PCC Gross Exp £000	Gross Inc £000	Net Exp £000	*2013/14 CC Gross Exp/PCC Funding £000*
(14,197)	Local Policing	1,578	(8,079)	**(6,501)**	*137,596*
(274)	Dealing with the Public	3	(382)	**(379)**	*23,354*
(1,152)	Criminal Justice	3	(1,236)	**(1,233)**	*22,353*
(4,114)	Road Policing	3	(5,719)	**(5,716)**	*16,621*
(3,062)	Specialist Operations	3	(1,550)	**(1,547)**	*19,889*
(655)	Intelligence	2	(611)	**(609)**	*18,066*
(2,799)	Specialist Investigation	688	(3,268)	**(2,580)**	*57,294*
(233)	Investigative Support	1	(328)	**(327)**	*10,911*
(5,795)	National Policing	1	(5,755)	**(5,754)**	*10,507*
1,728	Corporate and Democratic Core	1,439	(120)	**1,319**	*22*
2	Non-Distributed Costs	2	-	**2**	*1,063*
333,754	Funding provided by PCC to CC	326,088	-	**326,088**	*(326,088)*
303,203	**Net Cost of Services**	**329,811**	**(27,048)**	**302,763**	*(8,412)*
(32,682)	Other Operating Income & Expenditure(Note 9)			**(35,522)**	*-*
459	Financing & Investment Income & Expenditure (Note 10)			**562**	*115,860*
(268,066)	Taxation & non-specific grant income (Note 11)			**(276,019)**	*-*
2,914	**(Surplus)/Deficit on Provision of Services**			**(8,216)**	*107,448*
762	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment assets			**(16,992)**	*-*
176	Re-measurements of PCC pension assets/liabilities			**(535)**	*(133,050)*
938	**Other Comprehensive (Income) & Expenditure**			**(17,527)**	*(133,050)*
3,852	**Total Comprehensive (Income) & Expenditure**			**(25,743)**	*(25,602)*

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 2013		Notes	31 March 2014
£000			**£000**
164,643	Property, Plant & Equipment	16	179,295
259	Investment Property		406
1,921	Intangible Assets		1,988
202	Long Term Debtors		-
167,025	**Long Term Assets**		**181,689**
15,249	Short Term Investments	26	10,216
2,170	Assets Held for Sale		198
731	Inventories		774
20,976	Short Term Debtors	18	19,456
6,755	Cash and Cash Equivalents	21	20,920
1,148	Payments in Advance		981
47,029	**Current Assets**		**52,546**
(1,000)	Short Term Borrowing	26	(1,000)
(31,699)	Short Term Creditors	19	(26,353)
(1,354)	Short-Term Provisions	20	(1,970)
(1,701)	Receipts in Advance		(1,715)
(35,754)	**Current Liabilities**		**(31,038)**
(1,612)	Long-Term Provisions	20	(839)
(20,154)	Long Term Borrowing	26	(19,154)
(1,420)	Long Term Creditors -General		(1,418)
(2,672,133)	Pensions' Liability	27	(2,647,460)
(2,695,319)	**Long Term Liabilities**		**(2,668,871)**
(2,517,019)	**Net Assets**		**(2,465,674)**
32,711	Usable Reserves		42,655
(2,549,730)	Unusable Reserves	8	(2,508,329)
(2,517,019)	**Total Reserves**		**(2,465,674)**

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.

1 April 2012 (Restated)	31 March 2013 (Restated) £000		Notes	31 March 2014 £000
171,718	164,643	Property, Plant & Equipment	16	179,295
35	259	Investment Property		406
3,162	1,921	Intangible Assets		1,988
-	202	Long Term Debtors		-
174,915	**167,025**	**Long Term Assets**		**181,689**
19,370	15,249	Short Term Investments	26	10,216
821	2,170	Assets Held for Sale		198
832	731	Inventories		774
19,207	20,976	Short Term Debtors	18	19,456
2,323	6,755	Cash and Cash Equivalents	21	20,920
931	1,148	Payments in Advance		981
43,484	**47,029**	**Current Assets**		**52,546**
(2,500)	(1,000)	Short Term Borrowing	26	(1,000)
(23,148)	(24,770)	Short Term Creditors	19	(20,791)
(1,891)	(1,354)	Short-Term Provisions	20	(1,970)
(820)	(1,701)	Receipts in Advance		(1,715)
(28,359)	**(28,825)**	**Current Liabilities**		**(25,476)**
(1,570)	(1,612)	Long-Term Provisions	20	(839)
(21,154)	(20,154)	Long Term Borrowing	26	(19,154)
(1,657)	(1,420)	Long Term Creditors		(1,418)
(715)	(951)	Pensions Liability	27	(513)
(25,096)	**(24,137)**	**Long Term Liabilities**		**(21,924)**
164,944	**161,092**	**Net Assets**		**186,835**
29,428	32,711	Usable Reserves		42,655
135,516	128,381	Unusable Reserves	8	144,180
164,944	**161,092**	**Total Reserves**		**186,835**

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 (ie borrowing) to the Group.

2012/13 (Restated) £000		2013/14 £000
101,604	Net (surplus)/deficit on the provision of services	99,232
(114,685)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 22)	(118,010)
6,479	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 23)	6,031
(6,602)	**Net cash flows from Operating Activities**	**(12,747)**
(567)	Investing Activities (Note 24)	(2,386)
2,737	Financing Activities (Note 25)	968
(4,432)	**Net (Increase)/Decrease in cash & cash equivalents**	**(14,165)**
2,323	**Cash & cash equivalents at beginning of the reporting period**	**6,755**
6,755	**Cash & cash equivalents at the end of the reporting period (Note 21)**	**20,920**

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 (ie borrowing) to the PCC.

2012/13 (Restated) £000		**2013/14 £000**
2,914	Net (surplus)/deficit on the provision of services	**(8,216)**
(15,995)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 22)	(10,562)
6,479	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 23)	6,031
(6,602)	**Net cash flows from Operating Activities**	**(12,747)**
(567)	Investing Activities (Note 24)	(2,386)
2,737	Financing Activities (Note 25)	968
(4,432)	**Net (Increase)/Decrease in cash & cash equivalents**	**(14,165)**
2,323	Cash & cash equivalents at beginning of the reporting period	**6,755**
6,755	**Cash & cash equivalents at the end of the reporting period (Note 21)**	**20,920**

NOTES TO THE ACCOUNTS - Index

1. STATEMENT OF GENERAL 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 2011 and the Service Reporting Code of Practice for Local Authorities 2013/14 (SeRCOP). 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).

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.

The financial statements included in this document represent the accounts for the PCC and also those for the PCC Group. The financial statements cover the financial year ending 31 March 2014. The term "Group" is used to indicate individual transactions and policies of the PCC and Chief Constable for the year ended 31 March 2014.

The content and presentation for 2013/14 has been reviewed. This has resulted in removing notes that were deemed immaterial. Notes relating to specific items in the financial statements now include corresponding accounting policies. The accounting policies below relate to policies with no accompanying note.

ii. Revenue and expenditure recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods or services provided in the normal course of business, net of discounts and VAT. Revenue is recognised when goods are delivered and title has passed. The provision of services contains many accounting aspects and revenue is only recognised when all related work has been completed.

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 Chief Constable is based on economic benefit and service delivery.

iii. Accruals of Income and Expenditure

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

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

Revenue from the provision of services is recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

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 supplied by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept.

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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 Chief Constable. Hence all working capital balances are retained on the PCC Balance Sheet.

v. Foreign Currency Translation

Where the PCC has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

vi. Intangible Assets

Expenditure on non-monetary assets that do not have a physical substance but are controlled by the PCC Group as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the PCC Group.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the CIES. Economic lives are based on the period for which the software licence has been granted. An asset is tested for impairment whenever there is an indication that the asset might be impaired –any losses recognised are posted to the relevant service lines in the CIES. Any gains or losses arising on the disposal or abandonment of an intangible asset are posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the Police General Fund Balance. The gains and losses are therefore reversed out of the Police General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

vii. **Inventories and Long Term Contracts**

Inventories are maintained for such items as vehicles spares, IT equipment, firearms baton rounds, taser cartridges, fuel, uniforms and dry store items. Uniforms, clothing and dry store items are valued at average cost and vehicle, baton rounds, taser cartridges, fuel and IT stocks at current cost. In the case of the vehicle and IT stocks the difference between current cost and average cost (the use of the latter being prescribed as best practice by the ACOP guidance notes) is not material. The selected basis for valuation is applied to each category of inventory on a consistent basis from year to year.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

viii. **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. If the property is used in any way to facilitate the delivery of services or is held for sale then it is not an investment property

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

ix. **Leases**

Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The PCC as Lessee

Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease,

The PCC as a Lessor

Operating Leases

Where the PCC grants an operating lease over a property or an item of plant or equipment, the asset is retained in the PCC and PCC Group Balance Sheet. With the exception of some minor investment assets all leases/licences granted by the PCC are in respect of low value short-term rentals, which are included within the Cost of Service section in the Group CIES for use of space on radio transmitters. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

x. Contingent Assets/Liabilities

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

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.

xi. 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.

xii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14(SeRCOP*). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the PCC's status as a democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

xiii. 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.

2. **Prior period Adjustments**

Accounting Policy

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

There are two changes in accounting policies for which Prior period Adjustments have been made:

International Accounting Standard IAS19 (Employee Benefits) has been revised (IAS19R) with the most significant impact being around Post-Employment Benefits (Pensions). The changes have impacted on some terminology and some minor measurement changes, which have no

impact on the overall liability on the balance sheet but do involve changes on the face of the other financial statements;

International Accounting Standard (IAS19) requires that liabilities in respect of employee benefits, both short term (eg untaken holidays or time off in lieu –accumulated absences) and long term (eg pensions liabilities) are recognised in the first instance in the CIES and Balance Sheet of the Chief Constable. In the 2012/13 accounts the PCC's ultimate responsibility for these liabilities was recognised by intragroup and pensions' deficit funding in the single entity CIES of both the PCC (expenditure) and CC (Income)and long and short term debtors and creditors in the PCC and CC single entity balance sheets. However, although the PCC as an entity has ultimate responsibility for these liabilities, the resources are only provided to the CC on an annual basis to fund actual payments/employer contributions. To reflect this arrangement in the accounts of the PCC and CC would mean that the liabilities for staff under the direction and control of the CC would be reflected on the balance sheet of the CC, as in 2012/13, but the funding of these liabilities would remain with the CC, removing the long/short term debtors with the PCC. Since the preparation of the 2012/13 financial statements the status of the Chief Constable has changed. The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013 was laid before Parliament on the 17th September 2013 and is effective from 31st March 2014. This permits CCs to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply to a Local Authority. In practical terms this means that both long term pensions' liabilities and short term employee benefit liabilities can be funded in the Chief Constables own balance sheet by unusable reserves with the PCC's ultimate liability being reflected in the PCC Group Balance Sheet. The full impact on individual financial statements is shown in the tables that follow but there is no impact on the Group statements.

The impact on individual entries in the financial statements of the two prior period adjustments are:

	2012/13 Original	**IAS19R Adj**	**Adj to CC Funding Arrangements**	**2012/13 Restated**
	£000	**£000**	**£000**	**£000**
Group Movement in Reserves Statement –General Fund Balance:				
Deficit on Provision of Services/ Total Comprehensive Inc & Exp	(100,377)	-1,227	-	(101,604)
Adjs between accounting basis & funding basis-reversal of IAS19 pensions charges made to CIES	173,305	+1,227	-	174,532
Total Adjustments	101,548	+1,227	-	102,775
Group Movement in Reserves Statement –Unusable reserves:				
Other Comprehensive Inc & Exp	(294,942)	+1,227	-	(293,715)
Adjs between accounting basis & funding basis-reversal of IAS19 pensions charges made to CIES	(173,305)	-1,227	-	(174,532)
PCC Single Entity Movement in Reserves Statement –General Fund Balance:				
Deficit on Provision of Services/ Total Comprehensive Inc & Exp	(100,377)	-13	+97,476	(2,914)

	2012/13 Original	IAS19R Adj	Adj to CC Funding Arrangements	2012/13 Restated
	£000	£000	£000	£000
Adjs between accounting basis & funding basis-reversal of IAS19 pensions charges made to CIES	173,305	+1,227	-174,394	138
Adjs between accounting basis & funding basis-actual employers contributions paid	(74,668)	-	+74,589	(79)
Adjs between accounting basis & funding basis-difference in employee benefits charged to CIES & funding	(1,110)	-	+1,115	5
Total Adjustments	101,548	+1,227	-98,690	4,085
PCC Single Entity Movement in Reserves Statement –Unusable Reserves:				
Balance at 31 March 2012	(2,151,128)		2,286,644	135,516
Other Comprehensive Inc & Exp	(294,942)	+1,227	+292,777	(938)
Adjs between accounting basis & funding basis-reversal of IAS19 pensions charges made to CIES	(173,305)	-1,227	+174,394	(138)
Adjs between accounting basis & funding basis-actual employers contributions paid	74,668	-	-74,589	79
Adjs between accounting basis & funding basis-difference in employee benefits charged to CIES & funding	1,110	-	-1,115	(5)
Total Adjustments	(103,660)	-1,227	+98,690	(6,197)
Balance at 31 March 2013	(2,549,730)	-	+2,678,111	128,381
PCC Single Entity Movement in Reserves Statement –Total Reserves:				
Balance at 31 March 2012	(2,121,700)		2,286,644	164,944
Deficit on Provision of Services	(100,377)	-13	+97,476	(2,914)
Other Comprehensive Inc & Exp	(294,942)	+1,227	+292,777	(938)
Total Comprehensive Inc & Exp	(395,319)	+1,214	-390,253	(3,852)
Balance at 31 March 2013	**(2,517,019)**		**+2,678,111**	**161,092**
Group Comprehensive Income & Expenditure Statement:				
Cost of Services	318,462	+1,665	-	320,127
Financing and Investment Inc & Exp	115,217	-438	-	114,779
Deficit on Provision of Services	100,377	+1,227	-	101,604
Other Comprehensive Inc & Exp	294,942	-1,227	-	293,715
PCC Single Entity Comprehensive Income and Expenditure Statement:				
Net Cost of Services	(30,555)	+4	-	(30,551)
Financing and Investment Inc & Exp	431,680	+9	-97,476	334,213
Deficit on Provision of Services	100,377	+13	-97,476	2,914

	2012/13 Original	IAS19R Adj	Adj to CC Funding Arrangements	2012/13 Restated
	£000	£000	£000	£000
Other Comprehensive Inc & Exp	294,941	-13	-293,990	938
Total Comprehensive Inc & Exp	395,319	-	-391,467	3,852
PCC Single Entity Balance Sheet -1 April 2012				
Short Term Creditors	(31,461)	-	+8,044	(23,417)
Long Term Creditors -Pensions	(2,278,599)	-	+2,278,599	-
Net Assets	(2,121,700)	-	+2,286,644	164,944
Unusable Reserves	(2,151,128)	-	+2,286,644	135,516
Total Reserves	(2,121,700)	-	+2,286,644	164,944
PCC Single Entity Balance Sheet -31 March 2013				
Short Term Creditors	(31,852)	-	+6,929	(24,923)
Long Term Creditors -Pensions	(2,671,182)	-	+2,671,182	-
Net Assets	(2,517,019)	-	+2,678,111	161,092
Unusable Reserves	(2,549,730)	-	+2,678,111	128,381
Total Reserves	(2,517,019)	-	+2,678,111	161,092
PCC Group Cash Flow Statement:				
Net deficit on the provision of services	100,377	+1,227	-	101,604
Adjustments to net deficit for non-cash movements	(113,458)	-1,227	-	(114,685)
PCC Single Entity Cash Flow Statement:				
Net deficit on the provision of services	100,377	+13	-97,476	2,914
Adjustments to net deficit for non-cash	(113,458)	-13	+97,476	(15,995)

In addition, there is a presentational change to the PCC Single Entity Comprehensive Income and Expenditure Statement. Acting on recent Audit Commission advice on treatment of the PCC's funding of the CC, the funding has been moved from within the Financing and Investment Income and Expenditure section to above Net Cost of Service. There is no impact on the Deficit on Provision of Services but the changes to 2012/13 comparatives are as follows:

	2012/13 Original	2012/13 (Restated IAS19R)	Adjustment	2012/13 Restated
	£000	£000	£000	£000
Cost of Services	(30,555)	(30,551)	+333,754	303,203
Financing & Investment Income & Expenditure	431,680	334,213	-333,754	459

3. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out in notes to the accounts. In applying the accounting policies, the PCC Group has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

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

- 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 Chief Constable 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 Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013 quoted in the previous note, does not legally apply to the 2012/13 financial year. However, for comparability purposes the 2012/13 accounts have been restated as if the legislation was in place

- The PCC's valuers are 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 2014. It was not considered that there was any such need in 2013/14.

- Civilian employees under the direction and control of both the PCC and the CC are members of the Local Government Pension Scheme. Both in-year costs and year-end balances associated with the staff, calculated in accordance with IAS19, have been split in line with pensionable pay. This method has been discussed with the actuary and has been deemed to be a reasonable method of estimation given the materiality of the PCC element (just over 1% of the liabilities of the Group).

4. Accounting Standards that have been issued but have not yet been adopted

The following amendments have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2014 but not yet adopted by the Code.

- IFRS 10 *Consolidated Financial Statements* (May 2011)
- IFRS 11 *Joint Arrangements* (May 2011)
- IFRS 12 *Disclosures of Interests in Other Entities* (May 2011)
- IAS 27 *Separate Financial Statements* (as amended in May 2011)
- IAS 28 *Investments in Associates and Joint Ventures* (as amended in May 2011)
- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (as amended in December 2011)
- IAS 1 *Presentation of Financial Statements*— (as amended in May 2011)

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the PCC Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the PCC Group Balance Sheet at 31 March 2014 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	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE
Pensions Liability	Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the PCC Group with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 27 is a sensitivity analysis that looks at the impact on net pensions deficit of each of the significant actuarial assumptions. For instance, a 1% increase in the discount rate assumption would result in a reduction in the pension liability of the PCC Group of around £600m (£0.8m PCC single entity) . However, the assumptions interact in complex ways. During 2013/14, the PCC Group's actuaries advised that the net pensions' liability had increased by £39m as a result of changes in demographic assumptions.

6. Events after the Balance Sheet date

Accounting Policy

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

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

The Statement of Accounts was authorised for issue by the PCC's CFO on 30 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Under the Police Reform and Social Responsibility Act all PCC's are required to undertake a Stage 2 transfer of staff, assets, liabilities and land transferred previously from the Police Authority to the PCC at Stage 1. The Stage 2 transfer took place in April 2014 under which all Police Officers and staff, except those within the immediate Office of the PCC, were transferred to the Chief Constable. Both organisations retain use of a single bank account and all assets, liabilities and income are under the control of the PCC. All contracts signed by the organisation are under the name of the PCC.

A new framework of governance arrangements has been provided to manage the organisation following the Stage 2 transfer. The governance framework reinforces the PCCs position in control of the budget whereby the Chief Constable has a budget delegated to him by the PCC against which performance is monitored and reported to the PCC throughout the year.

Notes to the Movement in Reserves Statement

7. **Earmarked Reserves**

Accounting Policy

All usable reserves transferred to and remain the property of 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 2013/14.

	Comparative Year 2012/13			**2013/14**			
	Balance at 1 April 2012	Transfers Out 2012/13	Transfers In 2012/13	**Balance at 31 March 2013**	Transfers Out 2013/14	Transfers In 2013/14	**Balance at 31 March 2014**
Earmarked Reserves:	**£000**	£000	£000	**£000**	£000	£000	**£000**
Devolved Financial Management	**4,265**	(1,867)	28	**2,426**	(526)	765	**2,665**
Capital Funding Reserve	**7,198**	(4,258)	3,746	**6,686**	(4,538)	3,486	**5,634**
Confiscation & Forfeiture Reserve	**98**	(101)	136	**133**	(23)	84	**194**
Clothing Development Reserve	**504**	(49)	75	**530**	(41)	75	**564**
Vehicle Maintenance Reserves	**28**	-	15	**43**	-	-	**43**
IT Replacement Reserve	**38**	(38)	-	**-**	-	-	**-**
Early Debt Repayment Reserve	**(2,400)**	-	300	**(2,100)**	-	300	**(1,800)**
POCA Equalisation Reserve	**486**	(174)	-	**312**	(10)	252	**554**
Transitional Change Reserve	**5,904**	(7,159)	7,985	**6,730**	(4,277)	11,448	**13,901**
Operational Policing Reserve	**712**	-	1,240	**1,952**	-	632	**2,584**
Strategic Policing Reserve	**-**	-	-	**-**	-	114	**114**
Road Safety Reserve	**533**	(1,218)	1,618	**933**	(96)	601	**1,438**
Total Earmarked Reserves	**17,366**	**(14,864)**	**15,143**	**17,645**	**(9,511)**	**17,757**	**25,891**

8. Unusable Reserves

Accounting Policy

Certain reserves are kept to manage the accounting processes for tangible fixed 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	
1 April 2012 (Restated)	**31 March 2013 (Restated)**	**31 March 2014**		**31 March 2014**	**31 March 2013**
				£000	**£000**
27,829	24,788	40,419	Revaluation Reserve	40,419	24,788
108,357	104,825	103,454	Capital Adjustment Account	103,454	104,825
(715)	(951)	(513)	Pensions Reserve	(2,647,460)	(2,672,133)
45	(276)	825	Collection Fund Adjustment Account	825	(276)
-	(5)	(5)	Accumulated Absences Account	(5,567)	(6,934)
135,516	**128,381**	**144,180**	**Total Unusable Reserves**	**(2,508,329)**	**(2,549,730)**

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 2014 £000	**31 March 2013 £000**
Balance at 1 April	**24,788**	**27,829**
Upward revaluation of assets	17,941	1,681
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(949)	(2,442)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	16,992	(761)
Difference between fair value depreciation and historical cost depreciation	(1,064)	(841)
Accumulated gains on disposed assets	(297)	(1,439)
Other amounts written off to the Capital Adjustment Account		-
Amount written off to the Capital Adjustment Account	(1,361)	(2,280)
Balance at 31 March	**40,419**	**24,788**

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 2014		31 March 2013
	£000	£000	£000
Balance at 1 April		**104,825**	**108,357**
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 assets	(11,869)		(11,171)
Revaluation losses on Property, Plant and Equipment	2,597		1,107
Amortisation of intangible assets	(977)		(1,382)
Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,868)		(4,243)
		(13,117)	(15,689)
Adjusting amounts written out of the Revaluation Reserve		1,361	2,280
Net written out amount of the cost of non-current assets consumed in the year		**(11,756)**	**(13,409)**
Capital financing applied in year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	939		617
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,387		3,042
Application of grants to capital financing from the Capital Grant Unapplied Account	8		358
Statutory provision for the financing of capital investment charged against the General Fund balance	1,366		1,377
Capital expenditure charged against the General Fund balance	4,538		4,258
		10,238	
Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		147	225
Balance at 31 March		**103,454**	**104,825**

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 2013 (Restated) £000	**31 March 2014 £000**		**31 March 2014 £000**	**31 March 2013 (Restated) £000**
(715)	**(951)**	**Balance at 1 April**	**(2,672,133)**	**(2,279,315)**
(176)	535	Re-measurements of the net defined benefit (liability)/ asset	133,585	(292,953)
(139)	(186)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(184,827)	(174,532)
79	89	Employer's pensions contribution and direct payments to pensioners payable in the year	75,915	74,667
(951)	**(513)**	**Balance at 31 March**	**(2,647,460)**	**(2,672,133)**

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 tax payers compared with the statutory arrangements for paying across amounts to the Police General Fund from the Collection Fund.

	31 March 2014 £000	**31 March 2013 £000**
Balance at 1 April	**(276)**	**45**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,101	(321)
Balance at 31 March	**825**	**(276)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Police General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement and police officers lieu time carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

PCC			PCC GROUP	
31 March 2013 £000	31 March 2014 £000		31 March 2014 £000	31 March 2013 £000
(5)	**(5)**	**Balance at 1 April**	**(6,934)**	**(8,044)**
5	5	Settlement or cancellation made at the end of the preceding year	6,934	8,044
(5)	(5)	Amounts accrued at the end of the current year	(5,567)	(6,934)
0	0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,367	1,110
(5)	**(5)**	**Balance at 31 March**	**(5,567)**	**(6,934)**

Notes to the Comprehensive Income and Expenditure Statement

9. **Other Operating Income and Expenditure**

	PCC/PCC GROUP	
	2013/14 £000	**2012/13 £000**
(Gain)/Loss on the disposal of non-current assets	(124)	994
Home Office Pension Grant	(35,398)	(33,676)
Total	**(35,522)**	(32,682)

10. **Financing and Investment Income and Expenditure**

PCC			PCC GROUP	
2012/13 (Restated) £000	2013/14 £000		2013/14 £000	2012/13 (Restated) £000
1,084	984	Interest payable and similar charges	984	1,084
44	55	Net interest on the defined benefit pensions liability	115,915	114,364
(444)	(330)	Interest receivable and similar income	(330)	(444)
(225)	(147)	Income and expenditure in relation to investment properties and changes in their fair value	(147)	(225)
459	**562**	**Total**	**116,422**	**114,779**

11. 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 Comprehensive Income and Expenditure Statement 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 Council 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.

	2013/14	**2012/13**
	£000	**£000**
Council Tax Income	61,625	70,097
Capital Grants and contributions	3,394	3,050
Non Ring-fenced government grants	211,000	194,919
Total	**276,019**	268,066

12. Government Grant 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 Comprehensive Income & Expenditure Statements in 2013/14:

	2013/14 £000	2012/13 £000
Credited to Taxation and Non-Specific Grant Income:		
Police Grant	198,209	105,681
Legacy Council Tax Support Grants	12,791	-
Revenue Support Grant	-	1,697
National Non-Domestic Rates	-	87,541
Capital Grant and contributions	3,394	3,050
Total	**214,394**	**197,969**
Credited to Other Income and Expenditure:		
Home Office Grant payable towards the cost of retirement benefits	**35,398**	**33,676**
Credited to Services:		
Counter Terrorism	2,525	2,897
Community Safety	1,794	310
Neighbourhood Policing Fund	-	8,163
Restorative Justice	35	-
Olympics	-	1,437
Operation Chess	898	799
Other small grants	1,351	1,021
Total	**6,603**	**14,627**

13. Capital Charges and Fair Value Charge to Chief Constable

All assets (land, buildings, equipment etc.) transferred from the former Police Authority to the PCC under statute and remain in his possession. 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 2013/14. 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.

	2013/14 £000	2012/13 £000
Depreciation of PPE	11,869	11,171
Amortisation of Intangible Assets	977	1,382
Fair value recharge to CC to reflect his use of the assets to deliver the policing service	(12,846)	(12,553)
Revaluation (Gains)/Losses	(2,597)	(1,106)
Total charges in respect of Property, Plant and Equipment & Intangible Assets	**(2,597)**	**(1,106)**

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. SeRCOP does require that revaluation gains and losses be included in Cost of Service and apportioned over SeRCOP

categories. Apportionments are made across SeRCOP categories in the PCC CIES on the basis of property values.

14. PCC Funding of the Chief Constable

Accounting Policy

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

2012/13 (RESTATED)		**2013/14**
£000		**£000**
318,124	Cost of services deficit in CC CIES prior to PCC funding	**317,676**
(60,074)	Adjustment for net IAS19 pensions charges included in Cost of Service but funded by CC Pensions Reserve	(68,781)
74,589	Replace with actual employer contribution funded by PCC	75,826
1,115	Adjustment for movement in Accumulated Absence accrual funded by CC Accumulated Absence Reserve	1,367
333,754	**PCC funding for PCC resources consumed at the request of the CC**	**326,088**
	Consisting of:	
12,553	Fair value adjustment for CC consumption of PCC Property & Equipment	12,846
321,201	Other resources	313,242
333,754	**Total PCC resources consumed at the request of the CC**	**326,088**

15. Officers' Remuneration

Accounting Policy Short term Employee Benefits

Benefits payable during employment

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

Termination Benefits

Termination benefits are amounts payable to police staff, including PCSOs as a result of a decision by the PCC Group to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis 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 2013-14

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
OFFICE OF THE PCC								
Police & Crime Commissioner	Note 1	85,000			2,429	**87,429**	13,430	**100,859**
Chief Executive & Monitoring Officer		95,820			11,656	**107,476**	15,140	**122,616**
Deputy Police & Crime Commissioner	Note 2	29,750		950		**30,700**	4,701	**35,401**
Assistant PCC –Victims & Domestic Abuse	Note 3	20,400		1,258		**21,658**	3,223	**24,881**
Assistant PCC –Criminal Justice & Community Safety	Note 3	20,400				**20,400**	3,223	**23,623**
Assistant PCC –Efficiency & Effectiveness	Note 3	20,400		724		**21,124**	0	**21,124**
LANCASHIRE CONSTABULARY								
Chief Constable -S Finnigan		160,236			6,787	**167,023**	-	**167,023**
Deputy Chief Constable (A)	Note 4	117,328			5,429	**122,757**	27,008	**149,765**
Deputy Chief Constable (B)	Note 4	14,186			586	**14,772**	3,357	**18,129**
Assistant Chief Constable-Territorial Divs. & Criminal Justice		97,131			7,431	**104,562**	22,821	**127,383**
Assistant Chief Constable-Specialist Ops. (C)	Note 5	97,213			6,442	**103,655**	22,916	**126,571**
Assistant Chief Constable-Specialist Ops. (D)	Note 5	8,093		587		**8,680**	1,910	**10,590**
Assistant Chief Constable-People	Note 6	51,954			3,603	**55,557**	12,227	**67,784**
Director of Resources		94,301			9,018	**103,319**	14,900	**118,219**

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £85,000 and is set by the Home Office.

Note 2 This appointment is at 0.5FTE. The annualised whole time equivalent salary for this post is £59,500.

Note 3 These appointments are at 0.4FTE. The annualised whole time equivalent salary for these posts is £51,000.

Note 4 Post covered by two officers over the year: 1st April 2013 - 19th February 2014 (A) and 20th February 2014 - 31st March 2014 (B).

Note 5 Post covered by two officers over the year: 1st April 2013 - 31st January 2014 (C) and 1st February - 31st March 2014 (D).

Note 6 Post covered by one officer until 2nd October 2013-post subsequently disestablished.

Note 7 The Chief Finance Officer of the PCC is not a direct employee of the PCC but is delivered under a partnership arrangement. If relevant the salary c will appear on the disclosure of the employing authority

Senior Officers and Relevant Police Officers 2012-13 Comparatives

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	38,587	-	-	545	**39,132**	4,660	**43,792**
Chief Executive & Monitoring Officer		95,264	-	-	12,364	**107,628**	14,575	**122,203**
Deputy Police & Crime Commissioner	Note 2	11,487	-	-	-	**11,487**	1,434	**12,921**
Assistant PCC –Victims & Domestic Abuse	Note 3	8,491	-	-	-	**8,491**	1,040	**9,531**
Assistant PCC –Criminal Justice & Community Safety	Note 3	8,491	-	-	-	**8,491**	1,040	**9,531**
Assistant PCC –Efficiency & Effectiveness	Note 3	8,491	-	107	-	**8,598**	1,040	**9,638**
LANCASHIRE CONSTABULARY								
Chief Constable -S Finnigan		159,354	-	-	7,284	**166,638**	-	**166,638**
Deputy Chief Constable		128,427	-	-	5,372	**133,799**	30,189	**163,988**
Assistant Chief Constable-Territorial Divs. & Criminal Justice (A)	Note 4	19,507	-	-	-	**19,507**	3,512	**23,019**
Assistant Chief Constable-Territorial Divs. & Criminal Justice (B)	Note 4	55,804	-	-	4,714	**60,518**	13,108	**73,626**
Assistant Chief Constable-Territorial Divs. & Criminal Justice (C)	Note 4	28,214	-	-	-	**28,214**	7,396	**35,610**
Assistant Chief Constable-Specialist Ops.		108,110	-	1,776	7,103	**116,989**	25,478	**142,467**
Assistant Chief Constable-People		102,436	-	-	7,351	**109,787**	24,105	**133,892**
Director of Resources		93,753	-	-	8,287	**102,040**	14,344	**116,384**

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The costs for this post relate to the period from 22nd November 2012 - 31st March 2013. The annual salary for this post is £85,000 and is set by the Home Office.

Note 2 The costs for this post relate to the period from 17th December 2012 - 31st March 2013 and the contract is for 0.5FTE. The annualised wholetime equivalent salary for this post is £59,500.

Note 3 The costs for these posts relate to the period from 1st December 2012 - 31st March 2013 and the contracts are for 0.4FTE. The annualised wholetime equivalent salary for these posts is £51,000.

Note 4 Post covered by three officers over the year: 1st April - 17th May 2012; 18th May - 2nd September 2012; 3rd September 31st March 2013

Note 5 The Chief Finance Officer of the PCC is not a direct employee of the PCC but is delivered under a partnership arrangement. If relevant the costs will appear on the disclosure of the employing authority

The PCC Group employed an estimated 4,950 full time equivalents during 2013/14 (5,240 in 2012/13). 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):-

	2013/14			2012/13		
	Police Officers	**Police Staff**	**Total**	**Police Officers**	**Police Staff**	**Total**
£125,000 - £129,999	-	-	-	-	1	**1**
£120,000 - £124,999	-	-	-	-	-	**-**
£115,000 - £119,999	-	-	-	-	-	**-**
£110,000 - £114,999	-	-	-	-	-	**-**
£105,000 - £109,999	-	-	-	-	-	**-**
£100,000 - £104,999	-	1	**1**	-	2	**2**
£95,000 - £99,999	1	1	**2**	-	-	**-**
£90,000 - £94,999	1	0	**1**	6	2	**8**
£85,000 - £89,999	6	1	**7**	2	-	**2**
£80,000 - £84,999	6	1	**7**	8	-	**8**
£75,000 - £79,999	6	1	**7**	6	1	**7**
£70,000 - £74,999	4	1	**5**	5	2	**7**
£65,000 - £69,999	8	2	**10**	6	1	**7**
£60,000 - £64,999	12	4	**16**	11	3	**14**
£55,000 - £59,999	93	3	**96**	91	3	**94**
£50,000 - £54,999	115	16	**131**	120	20	**140**
Total	252	31	**283**	255	35	**290**

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

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

	2013/14	**2012/13**
£125,000 - £129,999	-	1
£100,000 - £104,999	1	2
£95,000 - £99,999	1	-
£90,000 - £94,999	-	2
£85,000 - £89,999	1	-
£75,000 - £79,999	1	-
£65,000 - £69,999	1	-
£60,000 - £64,999	-	1
£50,000 - £54,999	2	-
	7	6

There are no staff employed in the Office of the PCC during 2013/14, other than those already disclosed individually in the previous tables, who have received remuneration in excess of £50,000 during either 2012/13 or 2013/14

Exit packages

The numbers of exit packages with total cost per band and total cost of the compulsory redundancy and other departures are set out in the table below. It should be noted that the exit package costs

shown in the table reflect the total cost to the organisation including, where appropriate, cost of pension enhancements:

Bandings	Number of Compulsory Redundancies		Number of other departures agreed		Total cost of exit packages in each band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
					£	£
£0-£20,000	14	-	34	7	586,147	62,196
£20,001-£40,000	11	2	28	7	1,036,479	245,419
£40,001-£60,000	2	-	21	-	1,135,995	-
£60,001-£130,000	2	1	5	6	531,444	662,728
Total	**29**	**3**	**88**	**20**	**3,290,065**	**970,343**

Balance Sheet Notes

16. **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 (ie 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 – depreciated historical cost
- all other assets – fair 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture, 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 to be reviewed within a five-year period by the Constabulary's former Principal Estates Officer, Tim Ellams BSc MRISC (up to and including the 2012/13 valuations) and RICS qualified surveyors at Lambert Smith Hampton for valuations carried out during 2013/14. These are reviewed on a structured basis over the five year period. 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 and for accounting purposes valuations as at 31 March 2007 are treated as historical cost. 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 2013/14.

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

- 15-20 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 ten years, unless it is known that a different period is required.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not 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 or not 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 previously 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 2013/14:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total Property, Plant and Equipment
	£000	£000	£000
Cost or Valuation			
At 1 April 2013	**157,571**	**41,947**	**199,518**
Additions	783	7,046	7,829
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve.	10,256	-	10,256
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	2,359	-	2,359
De-recognition –disposals	(365)	(1,263)	(1,628)
De-recognition - other	-	(7,103)	(7,103)
Other movements in cost or revaluation	(9)	(8,592)	(8,601)
At 31 March 2014	**170,595**	**32,035**	**202,630**

Accumulated Depreciation & Impairment			
At 1 April 2013	**(10,332)**	**(24,543)**	**(34,875)**
Depreciation charge	(4,954)	(6,915)	(11,869)
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,733	-	6,733
Depreciation written out to Surplus/Deficit on the Provision of Services	239	-	239
De-recognition - disposals	20	713	733
De-recognition-other	-	7,103	7,103
Other movements in depreciation & impairment	9	8,592	8,601
At 31 March 2014	**(8,285)**	**(15,050)**	**(23,335)**

Net Book Value			
At 31 March 2014	**162,310**	**16,985**	**179,295**
At 31 March 2013	**147,239**	**17,404**	**164,643**

Comparative Movements in 2012/13:

	Land and Buildings	**Vehicles, Plant,**	**Total Property,**
	£000	**£000**	**£000**
Cost or Valuation			
At 1 April 2012	**159,547**	**43,878**	**203,425**
Additions	**3,541**	**5,201**	**8,742**
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve.	**(162)**	**-**	**(162)**
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	**1,106**	**-**	**1,106**
De-recognition –disposals	**(1,853)**	**(2,860)**	**(4,713)**
De-recognition - other	**(2,636)**	**(4,272)**	**(6,908)**
Assets reclassified (to)/from Held for Sale	**(1,972)**	**-**	**(1,972)**
At 31 March 2013	**157,571**	**41,947**	**199,518**

Accumulated Depreciation & Impairment			
At 1 April 2012	**(8,790)**	**(22,917)**	**(31,707)**
Depreciation charge	(4,353)	(6,818)	(11,171)
De-recognition - disposals	173	920	1,093
De-recognition-other	2,638	4,272	6,910
Other movements in depreciation & impairment	-	-	-
At 31 March 2013	**(10,332)**	**(24,543)**	**(34,875)**

Net Book Value			
At 31 March 2013	**147,239**	**17,404**	**164,643**
At 31 March 2012	**150,757**	**20,961**	**171,718**

Capital Commitments

At 31 March 2014 the PCC Group has entered into a number of capital contracts in respect of expenditure to be incurred in 2014/15 and future years, budgeted to cost £1.7m. Similar commitments at 31 March 2013 were £1.2m.

Effects of Changes in Estimates

In 2013/14 the PCC made no material changes to its accounting estimates for Property, Plant and Equipment.

Revaluations

The PCC Group carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. Revaluations in 2013/14 were carried out by RICS qualified surveyors at Lambert Smith Hampton. 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 Institute 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. Earlier in this note, the accounting policy in respect of measurement explains that, for accounting purposes, values as at 31 March 2007 are treated as historic cost in 2013/14.

	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000	£000	£000
Carried at historical cost		33,361	33,361
Valued at fair value as at:			
31 March 2014	100,482		100,482
31 March 2013	45,517		45,517
31 March 2012	14,648		14,648
31 March 2011	10,569		10,569
31 March 2010	-		-
Total Cost or valuation	**171,216**	**33,361**	**204,577**

17. **Capital Expenditure and Financing**

Accounting Policy -Government Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, 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.

	2013/14 £000	2012/13 £000
Opening Capital Financing Requirement	**39,381**	**39,550**
Capital Investment		
Property, Plant and Equipment	7,829	8,742
Intangible Assets	1,043	741
Sources of finance		
Capital receipts	(939)	(617)
Government grants & other contributions	(3,395)	(3,400)
Direct revenue contributions	(5,904)	(5,635)
Closing Capital Financing Requirement	**38,015**	**39,381**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	(1,366)	(169)
Increase/(decrease) in Capital Financing Requirement	**(1,366)**	**(169)**

18. **Debtors**

	PCC/PCC GROUP		
At 31 March	**31 March 2014 £000**	**31 March 2013 £000**	**1 April 2012 £000**
The major items included in debtors are:			
Central Government Bodies	13,300	15,247	14,057
Other Local Authorities	1,874	3,907	3800
NHS Bodies	6	-	-
Other Entities and Individuals	4,276	1,822	1,350
TOTAL	**19,456**	**20,976**	**19,207**

19. **Creditors**

PCC				PCC Group	
1 April 2012 (Re-stated) £000	**31 March 2013 (Re-stated) £000**	**31 March 2014 £000**	**At 31 March**	**31 March 2014 £000**	**31 March 2013 (Re-stated) £000**
			Creditors comprise:		
7,707	8,694	4,455	Central Government Bodies	4,455	8,694
3953	4,616	4,182	Other Local Authorities	4,182	4,617
-	31	1	NHS bodies	1	31
11,488	11,429	12,153	Other Entities and Individuals	17,715	18,358
23,148	**24,770**	**20,791**	**TOTAL**	**26,353**	**31,699**

Included with the creditors balance is an amount of £1.6m representing cash seized by Police under the Proceeds of Crime Act 2002. This cash is collected on behalf of the Home Office and does not impact on the Income and Expenditure Account.

20. Provisions

Accounting Policy

Provisions are made where an event has taken place that gives the PCC Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the PCC may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are the responsibility of the PCC and the level of required provisions is determined by the PCC, in consultation with the CC. However the annual revenue charges for provisions are reflected in the CC's CIES to reflect the true cost of delivering the policing service.

Provisions are charged as an expense to the appropriate service line in the Group CIES in the year the Group become aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settled a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the CIES if it is virtually certain that reimbursement will be received if the obligation is settled. Details of PCC/PCC Group provisions are shown below:

	Insurance	Compensatory Grant	Carbon Reduction	Total
	£000	£000	£000	£000
Balance at 1 April 2013	**2,529**	**300**	**137**	**2,966**
Additional provisions made in 2013/14	1,491	-	253	1,744
Amounts used in 2013/14	(1,665)	(80)	(156)	(1,901)
Balance at 31 March 2014	**2,355**	**220**	**234**	**2,809**

The provisions are split in the Balance Sheet between long and short term as follows:

	Long-term			Short-term			Total		
	2014 £000	2013 £000	2012 £000	2014 £000	2013 £000	2012 £000	2014 £000	2013 £000	2012 £000
Insurances	790	1,545	1,493	1,565	984	1,468	2,355	2,529	2,961
Compensatory Grant	49	67	77	171	233	273	220	300	350
Carbon Reduction	-	-	-	234	137	150	234	137	150
Total	**839**	**1,612**	**1,570**	**1,970**	**1,354**	**1,891**	**2,809**	**2,966**	**3,461**

Insurance Liabilities Provision

The PCC makes provision to meet insurance liabilities, the precise cost of which is uncertain but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits.

Compensatory Grant Provision

Compensatory Grant compensates officers for tax paid on Rent Allowance. As tax is also due on Compensatory Grant the full liability arising as a result of Rent Allowance paid in 2013/14 will not materialise for a number of years. The outstanding liability in respect of 2013/14 and earlier years is estimated as £0.220m at 31 March 2014, and the accounts provide for this.

Carbon Reduction Commitments Scheme

Accounting Policy

The PCC Group is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Group purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. This estimate is the basis for a short term provision in the year in which the obligation arises and the cost to the Group is recognised and reported in the "Cost of Services" section of the Group CIES.

The estimated cost in respect of 2013/14 emissions is £0.234m.

21. 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 2014 £000	31 March 2013 £000	1 April 2012 £000
Cash held by the PCC	287	185	328
Bank current accounts	21	3,033	43
Short-term deposits with Lancashire County Council County Fund	20,612	3,537	1,952
TOTAL	**20,920**	**6,755**	**2,323**

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

PCC			PCC GROUP	
2012/13 (Restated) £000	**2013/14 £000**		**2013/14 £000**	**2012/13 (Restated) £000**
(10,065)	(9,272)	Depreciation, impairments and downward valuations	(9,272)	(10,065)
(1,382)	(977)	Amortisation	(977)	(1,382)
(2,148)	3,726	Net (increase)/decrease in revenue creditors	5,093	(1,034)
61	476	(Increase)/decrease in interest creditors	476	61
1,406	(2,061)	Net increase/(decrease) in revenue debtors	(2,061)	1,407
(184)	164	Increase/(decrease) in interest debtors	164	(184)
(101)	43	Increase/(decrease) in inventories	43	(101)
(59)	(97)	Pension liability	(108,912)	(99,864)
495	157	Contributions (to)/from provisions	157	495
(4,243)	(2,868)	Carrying amount of non-current assets sold (PPE, Inv Prop, Intangibles)	(2,868)	(4,243)
225	147	Movement in value of investment property	147	225
(15,995)	**(10,562)**	**Total**	**(118,010)**	**(114,685)**

23. **Cash Flow Statement - Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities**

	PCC/PCC GROUP	
	2013/14 £000	**2012/13 £000**
Capital grants and contributions credited to (surplus)/deficit on provisions of services	3,393	3,400
Proceeds from sale of PPE, Inv Prop, Intangibles	2,638	3,079
Total	**6,031**	**6,479**

24. **Cash Flow Statement – Investing Activities**

	PCC/PCC GROUP	
	2013/14 £000	**2012/13 £000**
Purchase of property, plant and equipment, investment property and intangible assets	8,637	9,335
Purchase of short-term investments	-	30,000
Proceeds from sale of property, plant and equipment, investments property and intangible assets	(2,845)	(2,382)
Proceeds from disposal of short-term investments	(5,000)	(34,120)
Other receipts from investing activities	(3,178)	(3,400)
Net cash outflows from investing activities	**(2,386)**	**(567)**

25. Cash Flow Statement – Cash Flows from Financing Activities

	PCC/PCC GROUP	
	2013/14 £000	**2012/13 £000**
Cash repayment of short and long term borrowing	1000	2,500
Transferred debt repayment	(32)	237
Total cash outflows from financing activities	**968**	**2,737**

26. Financial Instruments

Accounting Policy

All financial instruments are included in the Balance Sheet at amortised cost. For borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayment and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year. Likewise investments are included in the Balance Sheet as the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

The following categories of financial instruments are carried in the PCC/PCC Group balance sheet:

Balance Sheet Items	**Long Term**			**Short Term**		
	31 March 2014	**31 March 2013 (Restated)**	**1 April 2012 (Restated)**	**31 March 2014**	**31 March 2013 (Restated)**	**1 April 2012 (Restated)**
	£000	**£000**	**£000**	£000	£000	£000
Investments						
Loans and Receivables:						
Short Term Investments	-	-	-	10,216	15,249	19,370
Cash and Cash Equivalents	-	-	-	20,920	6,755	2,323
Total Investments	-	-	-	31,136	22,004	21,693
Debtors:						
Financial assets carried at contract amounts	-	202	-	15,492	16,656	15,820
Borrowings:						
Financial Liabilities at amortised cost	(19,154)	(20,154)	(21,154)	(1,000)	(1,000)	(2,500)
Creditors: Financial Liabilities carried at contract amount.	(1,419)	(1,420)	(1,657)	(13,591)	(16,928)	(14,734)

The borrowings at amortised cost are loans from the Public Works Loan Board. The terms of these loans are such that the amortised cost of the loans at 31 March 2014 is calculated as their nominal value plus interest accrued up to the balance sheet date. Because interest is paid on the balance sheet date each year the accrued interest is nil and the amortised cost of the loans is therefore the same as their nominal value.

Cash investments during 2013/14 are balances placed in Lancashire County Council's General County Fund. The counterparty is Lancashire County Council which pays a market rate of interest in return for borrowing the PCC's funds for capital financing and short term cash flow purposes

Icelandic Deposit

The former Lancashire Police Authority had £0.668m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2012; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 52% of the total claim has now been repaid and the outstanding amount at 31 March 2014 is £0.321m.

The exact timing and amounts of future distributions is not known at this stage.

The deposit is treated as an impaired asset on the balance sheet and the carrying value is written down as distributions are received.

Income, Expense, Gains and Losses

Gains and Losses on Financial Instruments

The gains and losses during 2013/14 on financial instruments, i.e. the borrowings and investments detailed above, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table.

	Financial Liabilities measured at amortised cost	Financial Assets measured at amortised cost
	£000	£000
Interest Expense	984	
Total Interest payable	**984**	
Interest income		330
Total interest receivable		**330**

Fair Value of Financial Liabilities and Assets

Financial liabilities, financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Fair values are shown in the table below.

	31 March 2014		31 March 2013	
Balance Sheet Items	**Amortised Cost**	**Fair Value**	**Amortised Cost**	**Fair value**
	£000	**£000**	**£000**	**£000**
Loans from the Public Works Loan Board	20,154	23,078	21,154	25,954
Cash deposits invested with Lancashire County Council	30,612	30,612	18,537	18,537
Impaired Investments	216	216	249	249

The fair value of the PCC's PWLB loans is the amount that would have been payable had those loans been repaid to the PWLB on the balance sheet date rather than on their contracted future maturity date. This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date. Where the duration of a financial instrument is less than one year, its fair value may be deemed to be the same as its nominal value. All our deposits in the County Council's General County Fund mature in less than one year and so the fair value of our investments is the same as their nominal value.

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

Credit risk is the possibility that counterparty, i.e. an entity in which we have placed a cash investment or a trade debtor will be unable to honour its debt to us. In previous years, although our investments were all in Lancashire County Council's General County Fund, the County Council would lend out our balances as part of an overall total that includes the County Council's own money and that of other organisations as well. We therefore accepted a share of the overall credit risk that was proportional to our share of the total on deposit in the County Council's name. The 2010/11 treasury management policy changed this so that the actual counterparty was Lancashire County Council and the PCC is no longer liable for any losses which might occur within the County Council's portfolio. This decision was taken to reduce the credit risk to the PCC's balances at a time of continued volatility in financial markets. At 31 March 2014 Lancashire County Council has a credit rating, issued by Moody's, of Aa2.

Amount at 31 March 2014	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2014	Estimated maximum exposure to default and uncollectability
£000	**%**	**%**	**£000**
A	B	C	A x C
2,796	25.23	6.03	169

For this exercise, historical experience of default relates to average debt outstanding in excess of the thirty day terms allowed for trade debtors. In reality, debt is pursued actively and actual debt ultimately written off over the four year period amounted to an average of only £11,000 per year so whilst the exposure noted above is high the risk of uncollectability is low.

On the basis that the PCC allows thirty days credit terms for customers, £0.4m of the £2.7m balance is past its due date for payment. The past due date amount can be analysed by age, as follows:

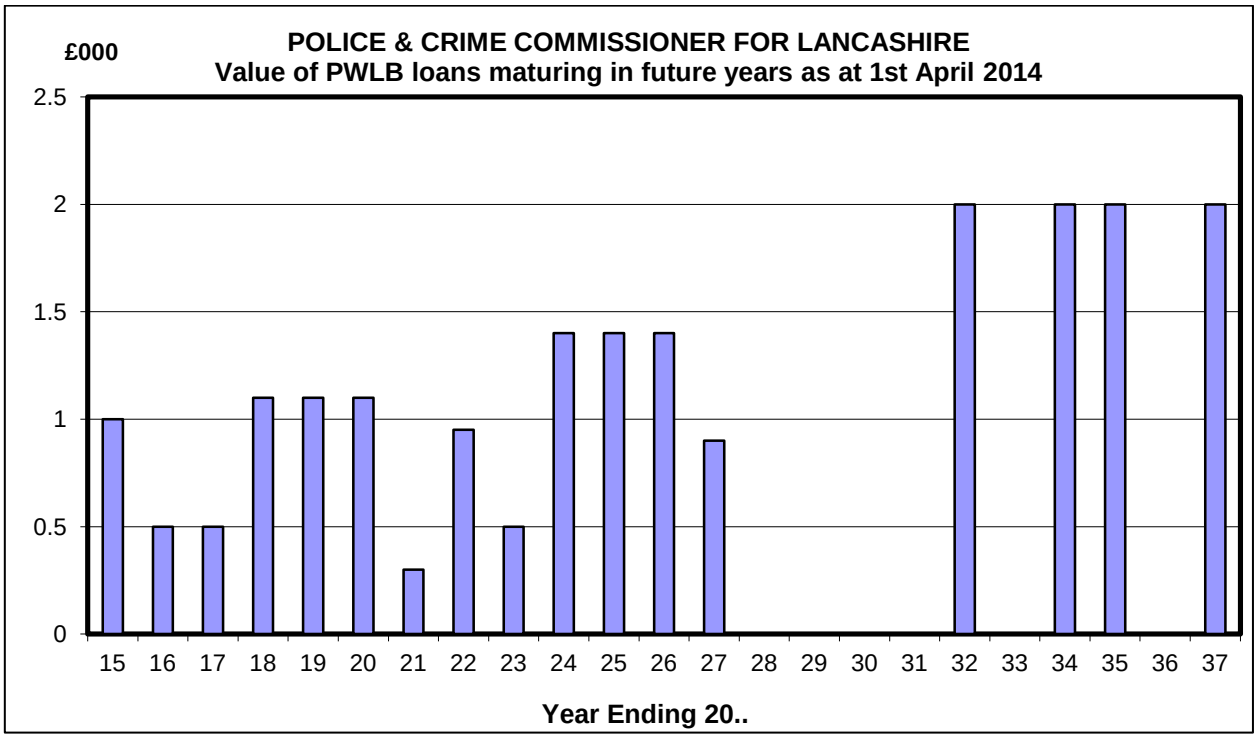
	31 Mar 14 £000	31 Mar 13 £000
One to three months	319	493
Three to six months	44	54
Six months to one year	13	39
More than one year	60	41
	436	**627**

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 Lancashire County Council, 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.



With our financial assets a 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.

Market Risk

The market risk to which we are exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

We hold fixed rate financial liabilities and variable rate financial assets. The fixed rate financial liabilities are long-term loans from the PWLB and the effect of changes in market interest rates is to change the fair value of the liabilities reported in the notes to the balance sheet.

These changes have no effect on any part of the revenue account or on the actual balance sheet carrying value. Fair values represent the amount due if debt is repaid before its maturity date. When the loans finally mature, they will be repayable at their nominal, balance sheet values.

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

Accounting Policies

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

- 1987 Police Pension Scheme for Police Officers (PPS);
- 2006 Police Pension Scheme for Police Officers (NPPS);
- Local Government Pensions Scheme for Police Staff

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

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

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

All the schemes provide index linked defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group and determined by the individuals pensionable pay and pensionable service. Details of how the police pensions schemes operate can be found on the Home Office website and details of how the LGPS operates can be found on the Lancashire County Council website.

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

Local Government Scheme:

Police staff, 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 15.8% during 2013/14 (15.3% in 2012/13).

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 method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using discount rates which now vary according to the duration of the employer's liability, with an average of 4.6% (4.4% in 2012/13), based on the weighted average of “spot yields” on AA rated corporate bonds.

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

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

Police Officers:

The Police Pension Scheme (PPS) is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations (PPR) 1987 (as amended) and related regulations that are made under the Police Pension Act 1976. During 2013/14 officers made contributions on a tiered basis up to a maximum 14% of pensionable pay.

The New Police Pension Scheme (NPPS), which started on 1 April 2006, is also a contributory occupational pension scheme, governed by the Police Pension Act 1976 (as amended by the Police Pensions Regulations 2006). During 2013/14 officers made contributions on a tiered basis up to a maximum 12% of pensionable pay.

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

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

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating both pension schemes have been recognised in the 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 Chief Constable for Lancashire and is included in both the Chief Constable and PCC Group Statements of Accounts

The liabilities of the PPS and NPPS 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 4.5% (4.4% in 2012/13), 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 2014 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 2014 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987 and 2006 Schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the 2013/14 CIPFA Code of Practice Guidance Notes (Module 6, Para. B73) 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 has to be analysed into the following components:

Service Cost, comprising:

- **current service cost**: represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is now included within the service cost -allocated in the CIES across activity areas, in line with the CIPFA SeRCOP;
- **past service and curtailments costs**: these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **net interest on the net defined benefit liability (asset)**: net interest expense for the PCC Group – the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements, the components of which pass through the Other Comprehensive Income and expenditure section of the CIES and are made up as follows:

- **Re-measurements (assets)** – these are set out in IAS19 as being the return on assets net of interest on assets, so this is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19

assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "Experience gain/loss on assets";

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

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

  Experience gains/losses on liabilities –as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "Experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In the case of the Police Pension scheme, this includes any contribution made by the PCC to meet the deficit on the Pension Fund.

In relation to retirement benefits, statutory provisions require the 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 on the basis of cash flows rather than as benefits are earned by employees.

Governance and Risk Management:

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

<u>Lancashire County Pension Fund</u>

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

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

shortfall.

The weighted average duration of the PCC Group's defined benefit obligation is 22 years, measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £8.5m contributions to the LGPS in 2014/15. 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 Pension Schemes

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

Funding the liabilities:
Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 18 years, measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £64.6m contributions to the Police Schemes in 2014/15.

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

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

Transactions Relating to Post-Employment Benefits

We recognise the cost of post-employment/retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the employers' contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the 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	
	2013/14	2012/13 Restated	2013/14	2012/13 Restated	2013/14	2012/13 Restated	2013/14	2012/13 Restated
	£000	£000	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement (CIES)								
Cost of Services:								
Service Cost comprising:								
• Current service cost	10,561	8,703	54,490	48,357	2,796	2,679	67,847	59,739
• Past service costs	4	233	-	-	-	-	4	233
• Curtailment costs	873	-	-	-	-	-	873	
• Admin. expenses	188	196	-	-	-	-	188	196
Financing and Investment Income and Expenditure*:*								
• Net Interest expense	4,530	4,140	107,023	106,018	4,362	4,206	115,915	114,364
Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES	**16,156**	**13,272**	**161,513**	**154,375**	**7,158**	**6,885**	**184,827**	**174,532**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: Re-measurement of the net defined benefit liability, comprising:								
• Re-measurements (assets)	1,716	(17,954)	-	-	-	-	1,716	(17,954)
• Experience gains on Liabilities	(10,945)	-	-	-	-	-	(10,945)	-
• Actuarial losses arising on changes in demographic assumptions	1,601	31,271	35,983	241,134	1,574	10,168	39,158	282,573
• Actuarial (gains)/losses arising on changes in financial assumptions	(36,348)	3,259	(121,399)	23,246	(5,767)	1,829	(163,514)	28,334
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(27,820)**	**29,848**	**76,097**	**418,755**	**2,965**	**18,882**	**51,242**	**467,485**
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	(16,156)	(13,272)	(161,513)	(154,375)	(7,158)	(6,885)	(184,827)	(174,532)
Actual amount charged against the General Fund Balance for pensions in the year:								
• Employers' contributions payable to scheme	8,222	7,814	65,380	64,719			73,602	72,533
• Retirement benefits paid to pensioners					2,313	2,135	2,313	2,135

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	
	2013/14	**2012/13 (Restated)**	**2013/14**	**2012/13 (Restated)**	**2013/14**	**2012/13 (Restated)**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• Current Service Cost	128	92	10,433	8,611	10,561	8,703
• Past service costs	-	-	4	233	4	233
• Curtailment costs	-	-	873	-	873	-
• Admin expenses	2	2	186	194	188	196
Financing and Investment Income and Expenditure*:*						
• Net interest expense	55	44	4,475	4,096	4,530	4,140
Net Charge to the Income and Expenditure Account Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**185**	**138**	**15,971**	**13,134**	**16,156**	**13,272**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement						
• Re-measurements (assets)	21	(190)	1,695	(17,764)	1,716	(17,954)
• Experience gains on Liabilities	(133)	-	(10,812)	-	(10,945)	
• Actuarial losses arising on changes in demographic assumptions	20	331	1,581	30,940	1,601	31,271
• Actuarial (gains)/losses arising on changes in financial assumptions	(442)	35	(35,906)	3,224	(36,348)	3,259
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(349)**	**314**	**(27,471)**	**29,534**	**(27,820)**	**29,848**
Statement of Movement in the General Fund Balance:						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(185)	(138)	(15,971)	(13,134)	(16,156)	(13,272)
Actual amount charged against Council tax for pensions in the year: Employers' contributions payable to scheme	89	79	8,133	7,735	8,222	7,814

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Govt Pension Scheme			Police Officer Pension Schemes			Injury Awards			Total		
PCC GROUP	**2013/14 £000**	**2012/13 £000**	**1 April 2012 £000**	**2013/14 £000**	**2012/13 £000**	**1 April 2012 £000**	**2013/14 £000**	**2012/13 £000**	**1 April 2012 £000**	**2013/14 £000**	**2012/13 £000**	**1 April 2012 £000**
Present Value of the defined benefit obligation	288,358	312,603	259,012	2,475,455	2,464,738	2,110,701	100,918	100,266	83,519	**2,864,731**	2,877,607	2,453,232
Fair value of plan assets	(217,271)	(205,474)	(173,917)	-	-	-	-	-	**-**	**(217,271)**	(205,474)	(173,917)
Net liability arising from defined benefit	**71,087**	107,129	85,095	**2,475,455**	2,464,738	2,110,701	**100,918**	100,266	83,519	**2,647,460**	2,672,133	2,279,315

	Local Govt Pension Scheme		
SINGLE ENTITY PCC	**2013/14 £000**	**2012/13 £000**	**1 April 2012 £000**
Present Value of the defined benefit obligation	2,438	2,743	2,176
Fair value of plan assets	(1,925)	(1,792)	(1,461)
Net liability arising from defined benefit obligation	**513**	951	715

The liabilities show the underlying commitments that the PCC Group has in the long run to pay retirement benefits, both in respect of the staff of the Office of the PCC (£0.513m) and the police officers and staff under the direction of the CC (£2,646.947m)

The total liability of £2,647.460m has a considerable impact on the net worth of the PCC Group as recorded in the balance sheets, resulting in a net liability of £2,465.674m.
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	
	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000
1 April	**312,603**	**259,012**	**2,743**	**2,178**	**309,860**	**256,834**
Current Service Costs	10,561	8,703	128	92	10,433	8,611
Interest on pensions liabilities	13,674	13,134	166	139	13,508	12,995
Contributions by scheme participants	3,031	3,201	37	34	2,994	3,167
Actuarial losses –changes in demographic assumptions	1,601	3,259	20	35	1,581	3,224
Actuarial (gains)/losses –changes in financial assumptions	(36,348)	31,271	(442)	331	(35,906)	30,940
Experience gains on liabilities	(10,945)	-	(133)	-	(10,812)	-
Benefits paid	(6,696)	(6,210)	(81)	(66)	(6,615)	(6,144)
Past Service/Curtailment Costs	877	233	-	-	877	233
31 March	**288,358**	**312,603**	**2,438**	**2,743**	**285,920**	**309,860**

	Unfunded Liabilities - PCC GROUP			
	Police Pension Schemes		Injury Benefits	
	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000
1 April	**2,464,738**	**2,110,702**	**100,266**	**83,519**
Current Service Costs	54,490	48,357	2,796	2,679
Interest on pensions liabilities	107,023	106,018	4,362	4,206
Contributions by scheme participants	14,783	13,981	-	-
Actuarial losses –changes in demographic assumptions	35,983	23,246	1,574	1,829
Actuarial (gains)/losses –changes in financial assumptions	(121,399)	241,133	(5,767)	10,168
Benefits paid	(80,163)	(78,699)	(2,313)	(2,135)
31 March	**2,475,455**	**2,464,738**	**100,918**	**100,266**

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	
	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000
1 April	**205,474**	**173,917**	**1,792**	**1,462**	**203,682**	**172,455**
Interest on plan assets	9,144	8,994	111	95	9,033	8,899
Admin Expenses	(188)	(196)	(2)	(2)	(186)	(194)
Employer Contributions	8,222	7,814	89	79	8,133	7,735
Contributions by scheme participants	3,031	3,201	37	34	2,994	3,167
Re-measurements (assets)	(1,716)	17,954	(21)	190	(1,695)	17,764
Benefits paid	(6,696)	(6,210)	(81)	(66)	(6,615)	(6,144)
31 March	**217,271**	**205,474**	**1,925**	**1,792**	**215,346**	**203,682**

	Unfunded Schemes –PCC Group			
	Police Pension Schemes		Injury Benefits	
	2013/14 £000	2012/13 Restated £000	2013/14 £000	2012/13 Restated £000
1 April	**-**	**-**	**-**	**-**
Employer Contributions	65,380	64,718	2,313	2,135
Contributions by scheme participants	14,783	13,981	-	-
Benefits paid	(80,163)	(78,699)	(2,313)	(2,135)
31 March	**-**	**-**	**-**	**-**

Local Government Pension Scheme assets comprised:

	2013/14 £000	2012/13 £000
Cash and Cash Equivalents	**3,658**	**7,176**
Equity Instruments		
By Industry		
Consumer	27,960	25,067
Manufacturing	17,298	12,006
Energy and Utilities	8,815	5,968
Financial Institutions	16,029	10,157
Health and Care	9,801	8,037
Information Technology	14,423	11,126
Miscellaneous	590	-
Sub-Total Equity	**94,916**	**72,361**
Bonds		
By Sector		
Corporate	20,018	22,698
Government	6,660	19,017
Sub-Total Bonds	**26,678**	**41,715**
Property		
By Type		
Retail	8,172	7,985
Commercial	9,604	10,004
Sub-Total Property	**17,776**	**17,989**
Private Equity		
UK	5,461	4,990
Overseas	5,968	4,487
Sub-Total Private Equity	**11,429**	**9,477**
Other Investment Funds		
Overseas Pooled Equity	18,977	17,210
Credit Funds	30,855	17,042
Infrastructure	11,826	6,387
Emerging Markets ETF	-	8,940
UK Pooled Equity	64	6,866
Property	1,092	311
Sub-Total Other Investment Funds	**62,814**	**56,756**
TOTAL ASSETS	**217,271**	**205,474**

Basis for Estimating Assets and Liabilities

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

	Local Govt. Pension Scheme		Police Pension Schemes		Injury Awards	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
Long-term expected rate of return on assets in the scheme:						
Equity investments	7.0%	7.0%	-	-	-	-
Government Bonds	3.4%	2.8%	-	-	-	-
Other Bonds	4.3%	3.9%	-	-	-	-
Property	6.2%	5.7%	-	-	-	-
Cash/Liquidity	0.5%	0.5%	-	-	-	-
Other	*	7.0%	-	-	-	-
Mortality assumptions:						
Longevity at 65 for current pensioners (LGPS):						
Men	22.8	22.1	-	-	-	-
Women	25.3	24.8	-	-	-	-
Longevity at 65 for future pensioners (LGPS):						
Men	25.0	23.9	-	-	-	-
Women	27.7	26.7	-	-	-	-
Longevity at 60 for current pensioners (Police):						
Men		-	28.0	27.4	25.3	24.8
Women		-	30.5	29.7	27.8	27.1
Longevity at 60 for future pensioners (Police):						
Men		-	30.4	29.4	27.7	26.8
Women		-	33.0	31.7	30.2	29.1
Rate of inflation: CPI	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Rate of increase in salaries	3.9%	4.4%	3.9%	3.9%	3.9%	3.9%
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Rate for discounting scheme liabilities	4.6%	4.4%	4.5%	4.4%	4.5%	4.4%

* Dependent on type of asset

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)	+5,392	-5,392	+66	-66
Rate of inflation (increase or decrease by 1%)	+64,850	-64,850	+788	-788
Rate for discounting scheme liabilities (increase or decrease by 1%)	-63,420	+63,420	-771	+771
Rate of increase in salaries (increase or decrease by 1%)	+21,390	-21,390	+260	-260

Police Officer Pension Schemes and Injury Benefits (PCC Group only – all pension obligations relate to officers under direction and control of 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)	+43,717	-43,717	+1,800	-1,800
Rate of inflation (increase or decrease by 1%)	+517,510	-517,510	+22,900	-22,900
Rate for discounting scheme liabilities (increase or decrease by 1%	-505,530	+505,530	-22,360	+22,360
Rate of increase in salaries (increase or decrease by 1%)	+336,230	-336,230	+16,430	-16,430

Other Notes

28. Amounts Reported for Resource Allocation Decisions

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

- No charges are made in respect of capital expenditure (whereas depreciation, revaluation & impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the CIES;
- The cost of retirement benefits is based on cash flows (payments of employer's pension contributions) rather than current service cost of benefits accrued in year;
- Contributions to/from earmarked reserves are reported with income and expenditure across individual budget areas when monitoring against budgets

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

2013/14	**ACC Territorial Ops £000**	**ACC Specialist Ops. £000**	**ACC People £000**	**DCC £000**	**Director of Resources £000**	**CC Other £000**	**PCC DFM £000**	**PCC Other £000**	**Total £000**
Fees & Charges & Other Service Income	(2,771)	(1,670)	(1,091)	(65)	(5,040)	(7,595)	(6)	(330)	**(18,568)**
Government Grants & Contributions	-	(16)	-	-	-	(4,554)	(1,759)	(13,065)	**(19,394)**
TOTAL INCOME	(2,771)	(1,686)	(1,091)	(65)	(5,040)	(12,149)	(1,765)	(13,395)	**(37,962)**
Employee Expenses	135,841	60,755	6,473	3,185	11,892	17,020	857	-	**236,023**
Other Service Expenses	9,149	5,884	1,311	1,545	20,183	4,642	2,822	986	**46,522**
TOTAL OPERATING EXPENSES	144,990	66,639	7,784	4,730	32,075	21,662	3,679	986	**282,545**
NET COST OF SERVICES	**142,219**	**64,953**	**6,693**	**4,665**	**27,035**	**9,513**	**1,914**	**(12,409)**	**244,583**
Contribs to/(from) reserves reported in year	2,536	2,013	625	31	939	(759)	(288)	(1,713)	**3,384**
Contribs to/(from) reserves agreed by PCC in Outturn report	-	-	-	-	-	4,305	267	290	**4,862**
Other appropriations included in MIRS	-	-	-	-	-	-	-	5,904	**5,904**
NET EXPENDITURE REPORTED TO MANAGEMENT	**144,755**	**66,966**	**7,318**	**4,696**	**27,974**	**13,059**	**1,893**	**(7,928)**	**258,733**

2012/13 Comparative	ACC Territorial Ops £000	ACC Specialist Ops. £000	ACC People £000	DCC £000	Director of Resources £000	Specific Grants £000	PCC £000	Total £000
Fees & Charges & Other Service Income	(3,119)	(1,138)	(961)	(35)	(3,885)	-	(57)	**(9,195)**
Government Grants & Contributions	-	(28)	-	-	-	(12,998)	(164)	**(13,190)**
TOTAL INCOME	(3,119)	(1,166)	(961)	(35)	(3,885)	(12,998)	(221)	**(22,385)**
Employee Expenses	146,681	58,092	8,974	3,302	12,589	-	777	**230,415**
Other Service Expenses	10,675	7,603	1,389	1,453	18,836	-	1,208	**41,164**
TOTAL OPERATING EXPENSES	157,356	65,695	10,363	4,755	31,425	-	1,985	**271,579**
NET COST OF SERVICES	**154,237**	**64,529**	**9,402**	**4,720**	**27,540**	**(12,998)**	**1,764**	**249,194**
Contributions to/(from) reserves	(1,780)	1,330	366	150	122	-	(60)	**128**
NET EXPENDITURE REPORTED TO MANAGEMENT	**152,457**	**65,859**	**9,768**	**4,870**	**27,662**	**(12,998)**	**1,704**	**249,322**

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

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

PCC ONLY			PCC GROUP	
2012/13 (Restated) £000	**2013/14 £000**		**2013/14 £000**	**2012/13 (Restated) £000**
1,704	(6,035)	Net expenditure in Service Analysis	258,733	249,322
-	-	Add services not included in main analysis	-	14,542
332,745	323,622	Add amounts not reported to management	79,161	70,504
(19)	7,978	Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	(43,543)	(46,795)
(31,227)	(22,802)	Income reported to Management within Constabulary net devolved budgets (PCC Only)	-	-
303,203	**302,763**	**NET COST OF SERVICE IN CIES**	**294,351**	287,573

Reconciliation to PCC Group Subjective Analysis

2013/14	Service Analysis £000	Not Reported to Mgmt. £000	Not incl. in Cost of Service £000	Net Cost of Service £000
Fees, charges & other service income	(17,847)			**(17,847)**
Interest and Investment Income (net of impairment)	(330)		330	-
Revaluation gains		(2,597)		**(2,597)**
Receipts from sale of Non-current Assets	(391)		391	**-**
Government Grants and Contributions	(19,394)		12,791	**(6,603)**
TOTAL INCOME	**(37,962)**	**(2,597)**	**13,512**	**(27,047)**
Employee Expenses	236,023	68,912	(41,884)	**263,051**
Other Service Expenses	45,538		(37)	**45,501**
Depreciation, Amortisation & Impairment		12,846	**-**	**12,846**
Interest Payments	984		(984)	-
TOTAL OPERATING EXPENSES	**282,545**	**81,758**	**(42,905)**	**321,398**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**244,583**	**79,161**	**(29,393)**	**294,351**
Adjustments Reported to Management , included in Movement in Reserves Statement:				
Contributions to/(from) reserves	8,246	-	(8,246)	-
Other appropriations included in MIRS	5,904	-	(5,904)	-
Management reporting reconciliation	**258,733**	**79,161**	**(43,543)**	**294,351**

2012/13 Comparative (Restated)	Service Analysis	Services not in Analysis	Not Reported to Mgmt.	Not incl. in Cost of Service	Net Cost of Service
	£000	£000	£000	£000	£000
Fees, charges & other service income	(8,983)	(7,838)	-	-	**(16,821)**
Interest and Investment Income (net of impairment)	-	(444)	-	444	-
Revaluation gains	**-**	**-**	(1,106)	**-**	**(1,106)**
Receipts from sale of Non-current Assets	(212)			212	**-**
Government Grants and Contributions	(13,190)	(1,437)	-	-	**(14,627)**
TOTAL INCOME	**(22,385)**	**(9,719)**	**(1,106)**	**656**	**(32,554)**
Employee Expenses	230,415	12,662	59,058	(40,991)	**261,144**
Other Service Expenses	41,164	5,310	-	(43)	**46,431**
Depreciation, Amortisation & Impairment	**-**	**-**	12,552	**-**	**12,552**
Interest Payments	**-**	1,083	-	(1,083)	**-**
TOTAL OPERATING EXPENSES	**271,579**	**19,055**	**71,610**	**(42,117)**	**320,127**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**249,194**	**9,336**	**70,504**	**(41,461)**	**287,573**
Adjustments Reported to Management , included in Movement in Reserves Statement:					
Contributions to/(from) reserves	128	(429)	-	301	-
Other appropriations included in MIRS		5,635	**-**	(5,635)	-
Management reporting reconciliation	**249,322**	**14,542**	**70,504**	**(46,795)**	**287,573**

Reconciliation to PCC Subjective Analysis

2013/14	Service Analysis £000	Not Reported to Mgmt. £000	Not incl. in Cost of Service £000	Income reported to Mgt in Chief's budgets £000	Net Cost of Service £000
Fees, charges & other service income	(6)	-		(17,841)	**(17,847)**
Interest & Investment Income	(330)	-	330	-	**-**
Receipts from sale of Non-current Assets	-	-	391	(391)	**-**
Revaluation Gains	-	(2,597)	-	-	**(2,597)**
Government Grants and Contributions	(14,824)	-	12,791	(4,570)	**(6,603)**
TOTAL INCOME	**(15,160)**	**(2,597)**	**13,512**	**(22,802)**	**(27,047)**
Employee Expenses	857	131	(90)		**898**
Other Service Expenses	2,824	-	-	-	**2,824**
Interest Payments	984	-	(984)	-	**-**
PCC funding of CC	-	326,088	-	-	**326,088**
TOTAL OPERATING EXPENSES	**4,665**	**131**	**(1,074)**	**-**	**329,810**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**(10,495)**	**323,622**	**12,438**	**(22,802)**	**302,763**
Adjustments Reported to Management , included in Movement in Reserves Statement:					
Contributions to/(from) reserves	(1,444)	-	1,444	-	-
Other appropriations included in MIRS	5,904	-	(5,904)	-	-
Management reporting reconciliation	**(6,035)**	**323,622**	**7,978**	**(22,802)**	**302,763**

2012/13 (Restated)	Service Analysis £000	Not Reported to Mgmt. £000	Not incl. in Cost of Service £000	Income reported to Mgt in Chief's budgets £000	Net Cost of Service £000
Fees, charges & other service income	(57)	-	-	(16,764)	(16,821)
Revaluation Gains	-	(1,106)	-	-	(1,106)
Government Grants and Contributions	(164)	-	-	(14,463)	(14,627)
TOTAL INCOME	**(221)**	**(1,106)**	**-**	**(31,227)**	**(32,554)**
Employee Expenses	777	97	(79)	-	795
Other Service Expenses	1,208	-	-	-	1,208
PCC funding of CC	-	333,754	-	-	333,754
TOTAL OPERATING EXPENSES	**1,985**	**333,851**	**(79)**	**-**	**304,766**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	**1,764**	**332,745**	**(79)**	**(31,227)**	**303,203**
Adjustments Reported to Management , included in Movement in Reserves Statement:					
Contributions to/(from) reserves	(60)	-	60	-	-
Management reporting reconciliation	**1,704**	**332,745**	**(19)**	**(31,227)**	**303,203**

29. Related Parties

The PCC Group (PCC and CC) is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Group.

Central government has effective control over the general operations of the Group: it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Details of transactions with government departments are set out in the subjective analysis in Note 28 above on reporting for resource allocation decisions and further analysis in Note 12 (Grant Income).

The PCC has direct control over the Group's finances and is responsible for setting the Police and Crime Plan. The Chief Constable 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. This survey showed the following:

Lisa Kitto, CFO to the PCC, is employed by Lancashire County Council as Deputy Treasurer and provides the service to the PCC as part of a partnership arrangement with Lancashire County Council. The annual charge is included in the PCC and PCC Group CIES and in the subjective analysis in Note 28 on Reporting for Resource Allocation Decisions, within "Other Service Expenditure"

Saima Afsal, Assistant PCC, is a director of Saima Afsal Solutions.

In none of these cases is there evidence of any related material transaction which would require disclosure in this note.

Jointly Controlled Operations/Collaboration

Accounting Policy

Jointly controlled operations are activities undertaken by the PCC Group in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The PCC Group recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Group CIES with the expenditure it incurs and the share of income it earns from the activity of the operations.

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.

The Underwater Search Unit serves the areas of Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and North Wales and is staffed by officers and staff from all six forces and the overall expenditure apportioned on the basis of police grant allocations. Cheshire is the lead force.

The North West Police Motorway Group collaboration between Cheshire, Lancashire, Merseyside and the Highways Agency commenced in 2008. The collaboration ensures a coordinated approach to tackle the key priorities identified and agreed by the parties. Expenditure is apportioned on an agreed formula. Cheshire is the lead force.

The Regional Crime Unit (RCU) serves the areas of Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and North Wales and is staffed by officers and staff from all six forces . It exists to increase operational capacity and capability to tackle the organised crime threat in the North West through the establishment of a regional task force. Expenditure is apportioned on the basis of police grant allocation. Merseyside is the lead force.

The Regional Intelligence Unit (RIU) serves the areas of Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and North Wales and is staffed by officers and staff from all six forces. It plays a key role in tackling cross border crime both feeding intelligence into action being taken at the regional level and receiving intelligence from this work to inform future working. Expenditure is apportioned on the basis of police grant allocation. Merseyside is the lead force.

The Regional Asset Recovery Team (RART) serves the areas of Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and North Wales and is staffed by officers and staff from all six forces. It aims to provide focussed multi agency operational capability with responsibility for investigating money laundering and asset recovery. All costs are reimbursed by Merseyside as the lead force.

In 2013/14 the PCC for Merseyside incurred £3.689m of capital expenditure on the purchase and refurbishment of a building to accommodate the Regional Crime Unit, the Regional Intelligence Unit and the Regional Asset Recovery Team. The cost of this asset has been fully funded by a £3.689m capital grant received from the Home Office. The premises have been purchased in the name of and are owned by the PCC for Merseyside and the full cost of this asset (£3.689m) is reported within the accounts of the PCC for Merseyside as an asset under construction at the balance sheet date. If the regional arrangements are ever terminated the Home Office has the option of recovering the £3.689m 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). The building became operational in May 2014.

The Regional Collaboration Coordinator provided the link between forces for new collaboration opportunities. Cost incurred by Cheshire officer and staff are recharged to forces on the basis of police grant allocation.

The National Police Air Service (NPAS) was launched throughout England and Wales in January 2013. The North West region, of which the Lancashire area is incorporated, is covered by this service. West Yorkshire Police is the lead force.

The Casualty Bureau is a regional facility for supporting major incidents. Greater Manchester is the lead force.

Firearms collaboration covers the creation of a Policy and Compliance Unit and development of a regional approach to firearms training across the six North West police Force areas. The arrangement started in October 2012 with costs apportioned on the basis of police grant settlement figures. Cheshire is the lead force.

The IT Coordinator was created to identify and coordinate any ICT issues arising from collaboration proposals. Costs incurred by Merseyside are shared between the six regional forces.

The Protected Persons Service was initially an arrangement involving Cheshire, Cumbria, Lancashire and North Wales. From October 2013 the Service was extended to include Greater Manchester and Merseyside to provide further increased resilience in the management of protected persons on the scheme. Merseyside is the lead force.

The Lancashire Road Safety Partnership was created in 2001 as part of the Department for Transport's National Safety Camera Programme with the principle aim of helping to achieve the Government's casualty reduction targets by reducing site specific ambient speed levels and changing road users' behaviour and attitudes. It is the coordinating body for Lancashire which aims to reduce road casualties through the management of speed, speed enforcement, driver education and training and through developing collaborative approaches to education, awareness, engagement and other measures. The accountable body for the Partnership in 2013/14 is Lancashire County Council (LCC) with costs funded by LCC, Blackburn with Darwen Council, Blackpool Council and the PCC for Lancashire. From April 2014 the Partnership will become self-funding from driver awareness income within the PCC Group.

The amounts charged/credited to the Group Comprehensive Income and Expenditure are:-

	2012/13			**2013/14**		
	Exp	Inc	Net	**Exp**	**Inc**	**Net**
	£000	£000	£000	**£000**	**£000**	**£000**
Underwater Search Unit	347	186	161	335	146	**189**
Motorway and ANPR	259	0	259	262	0	**262**
RCU	1313	625	688	1231	566	**665**
RIU	223	124	99	229	138	**91**
RART	539	539	0	475	475	**0**
Coordinator	27	0	27	25	0	**25**
NPAS	1,485	306	1,179	1,287	7	**1,280**
Casualty Bureau	6	0	6	12	0	**12**
Firearms	32	0	32	55	0	**55**
IT Coordinator	11	0	11	11	0	**11**
Protected Persons	603	230	373	334	143	**191**
Road Safety	1,131	1,131	0	1,089	1,089	**0**
TOTAL	**5,976**	**3,141**	**2,835**	**5,345**	**2,564**	**2,781**

30. Expenditure on Publicity

The PCC Group has spent £0.775m (£0.770m in 2012/13) 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**	
	2013/14	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Publicity	81	57	693	709	774	766
Advertising -Recruitment	-	1	-	2	-	3
Advertising - Other	1	1	-	-	1	1
	82	**59**	**693**	**711**	**775**	**770**

31. External Audit Costs

In 2013/14 the PCC Group incurred the following fees relating to external audit.

	2013/14 £000	2012/13 £000
Fees payable to Grant Thornton with regard to external audit services carried out as appointed auditors.	68	73
Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditors.	(3)	(3)
Fees payable in respect of other services provided by the appointed auditor	0	1
Total Costs	**65**	**71**

For 2013/14 separate charges were made to the PCC and CC; the CC share was £25,000 with the balance falling on the PCC. The £3k credit for 2013/14 is shown separately as it was made directly by the Audit Commission to the CC as a refund on the fee payable in 2013/14.

32. Sponsorship

The PCC has powers to receive gifts, loans of property and sponsorship up to a limit of 1% of its budget (2013/14 limit £2.6m). During the year monies and gifts amounting to a value of £0.074m (£0.024m in 2012/13) were received. This was principally gifts, or loans, of equipment and vehicles.

POLICE PENSION ACCOUNT

The Chief Constable administers the Police Pension Fund Account (the Account) on behalf of the PCC, in accordance with the Police Reform and Social Responsibility Act 2011. Amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). During the year all payments and receipts are made to and from the Police Fund, which is held by the PCC. This statement shows the income and expenditure for the Police Pension Scheme (PPS) and the New Police Pension Scheme (NPPS). This statement does not form part of the Statement of Accounts for either the PCC or the Chief Constable but has been audited as a separate statement and is covered by the audit opinion on Page 89**.**

POLICE PENSION ACCOUNT

	2013/14			2012/13
	PPS scheme £000	**NPPS scheme £000**	**Total £000**	Total £000
Contributions receivable				
Employer contributions at 24.2% of pensionable pay	(22,714)	(4,565)	**(27,279)**	(28,410)
Early Retirements	(2,704)	-	**(2,704)**	(2,633)
	(25,418)	(4,565)	**(29,983)**	(31,043)
Officer Contributions	(12,641)	(2,137)	**(14,778)**	(13,981)
Total Contributions Receivable	**(38,059)**	**(6,702)**	**(44,761)**	(45,024)
Transfers In	**(143)**	**(381)**	**(524)**	(503)
Benefits Payable				
Pensions	64,185	2	**64,187**	61,239
Commutations and lump sum retirement benefits	15,441	-	**15,441**	17,505
Lump sum death benefits	149	-	**149**	75
Other pre '74	-	-	**-**	8
Total Benefits Payable	**79,775**	**2**	**79,777**	78,827
Payments on Account of Leavers				
Transfer values out	857	-	**857**	373
Refund of contributions	-	-	**-**	3
Other	49	-	**49**	-
Total Payments on Account of Leavers	**906**	**-**	**906**	376
Net amount payable/(receivable) for the year before top-up contribution from Police Fund	**42,479**	**(7,081)**	**35,398**	33,676
Top-up contribution to/ (from) Police Fund.	**(42,479)**	**7,081**	**(35,398)**	(33,676)
Net amount payable/(receivable)	**-**	**-**	**-**	0

NET ASSET STATEMENT

31 March 2013 £000		31 March 2014 £000
4,546	April pensions paid in advance	-
-	Amounts owed re pre 74 pension recharges	-
-	Amounts owing re pre 74 pension recharges	-
(4,546)	Amounts owed (to)/from PCC's General Fund	-
-	**Net Assets**	**-**

NOTES TO THE FINANCIAL STATEMENT

1. **Basis of preparation**

The Police Pension Account combines the accounting transactions of two pension schemes; the Police Pension Scheme (PPS), which was set up in 1987 and the New Police Pension Scheme (NPPS) which was created by the Home office under the Police Pension Regulations 2006.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2013/14. It summarise the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the Income and Expenditure Account and Balance Sheets of the Chief Constable and the PCC Group.

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

Membership at 31 March is as follows:

	PPS		NPPS		Total	
	31/3/14	31/3/13	**31/3/14**	31/3/13	**31/3/14**	31/3/13
Active Members	2,407	2,556	675	651	**3,082**	**3,207**
Deferred	515	511	63	46	**578**	**557**
Current Pensioners (incl widows/depends.)	4,029	3,976	1	1	**4,030**	**3,977**
	6,951	**7,043**	**739**	**698**	**7,690**	**7,741**

2. Accounting policies

General

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

Employers' Contributions

The employers' contribution rate for both pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2013/14 was set at 24.2%.

Employees' Contributions

Police officer contributions are deducted from officer salaries. The contribution rates were increased on 1 April 2012 to reflect the agreement reached between the Home Secretary and the Police Negotiating Board. Contribution rates range between 10.7% and 14% dependant on the range the police officer's salary falls into and whether the officer is a member of the PPS or NPPS.

3. Net Asset Statement

The Net Asset Statement does not include liability to pay pensions and other benefits after the 31 March 2014 These liabilities remain ultimately with the PCC Group and have been reflected in the Chief Constable and PCC Group Balance Sheets. Details of these liabilities can be found in Note 27 to the main Statement of Accounts.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

Opinion on the financial statements

We have audited the financial statements for the Police and Crime Commissioner for Lancashire for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Police and Crime Commissioner Single Entity and Group Movement in Reserves Statement, the Police and Crime Commissioner Single Entity and Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Single Entity and Group Balance Sheet, the Police and Crime Commissioner Single Entity and Group Cash Flow Statement and the related notes and include the police pension account financial statements comprising the Police Pension Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the Police and Crime Commissioner for Lancashire in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Lancashire as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Police and Crime Commissioner and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Police and Crime Commissioner has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the Police and Crime Commissioner for Lancashire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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 Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Royal Liver Building
Liverpool
L3 1PS

30 September 2014

Police and Crime Commissioner for Lancashire
Annual Governance Statement 2013/14

The Police and Crime 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 Police and Crime Commissioner also has a statutory duty to secure value for money in the use of public funds.

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

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

A joint OPCC and Constabulary 'Scheme of Governance' sets out both the broad legislative context and local regulatory framework, within which the PCC and the Chief Constable work to fulfill their statutory function of securing an efficient and effective police force. It also outlines how they will ensure robust and effective governance arrangements to support the exercise of those functions
.
This statement explains how the Police and Crime Commissioner for Lancashire has complied with the governance framework, and also meets the statutory requirement for it to undertake an annual review of arrangements and publish findings in an Annual Governance Statement.

1 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 are 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 Constabulary'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;

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

2 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 Office of 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.

3 THE GOVERNANCE FRAMEWORK

3.1 Focusing on the purpose of the PCC and on outcomes for local people, and creating a vision for the local area.

The Commissioner finalised the Police and Crime Plan at the end of March 2013 having consulted extensively with the Chief Constable. The Police and Crime Plan has therefore been in place for the financial year 2013/14 and is reviewed and updated annually, with outturn performance scrutinised at the end of each year.

The Police and Crime plan incorporates a number of action plans and processes to support the delivery of the priorities set out within it, including:

- Delivery and business plans to monitor the implementation of the Commissioner's priorities
- Decision making process - this is in place

- Forward Plan of key decisions
- Commissioning Framework

The OPCC team works closely with the Constabulary in taking forward key areas of business and the Commissioner has monthly Strategic Planning Meetings both internally with senior members of the OPCC and jointly with Constabulary Chief Officers.

The Commissioner's website provides contact details so that members of the public are able to get in touch, raise issues or concerns direct with him. A "case management" team has been developed to respond to contact by members of the public and help the PCC focus on the outcomes for local people.

Delivering value for money is a strategic priority for the Commissioner and the financial context in which the PCC and the Constabulary operate makes achieving value for money and delivering the necessary savings a critical objective.

The budget and medium term financial forecast (MTFF) are set by the PCC, with regular updates around budget monitoring and progress provided throughout the year. The Statement of Accounts will be approved by the PCC and Chief Constable in September 2014.

The governance framework has been in place up to and including the year ending 31 March 2014 and up to the date of approval of the statement of accounts.

3.2 Working together to achieve a common purpose with clearly defined functions and roles.

The governance arrangements for the OPCC have been developed in line with recommendations and requirements of the Police Reform and Social Responsibility (PRSRA) Act 2011, statutory Policing Protocol, CIPFA and the Home Office. The governance arrangements comply with the Financial Management Code of Practice (FMCP), and other existing guidance on financial and governance matters which continue to apply. An interim scheme of governance, financial regulations and contract regulations were developed in accordance with the FMCP to enable effective accountability and to govern the relationship between the OPCC and Lancashire Constabulary. This framework was developed by a cross cutting group comprising representatives from the former police Authority, Constabulary, audit committee and internal audit and was agreed by the Commissioner on 22 November 2012.

There is a decision making framework which ensures that all OPCC decisions are published and available for public scrutiny, and that before any decisions are made appropriate financial, legal and HR advice is obtained. This approach ensures that all of the PCC's decisions are fully assessed for any implications and that the PCC is made aware of these before a decision is made.

It was agreed at the outset that review of the interim governance arrangements would be carried out by the end of the financial year to ensure that any amendments cold be reflected and implemented for the new financial year. The OPCC and Constabulary reviewed the interim governance framework in March 2013 and found the new arrangements were fit for purpose. Some minor amendments have been proposed and will be reflected in the final set of governance documents. A further review of the scheme was conducted in early 2014 to reflect the impact of the Stage 2 transfer on the organisation, the revised scheme of Governance will therefore be in place for 2014/15.

In accordance with the requirements of the Financial Management Code of Practice, a Joint Audit Committee has been established. It has agreed terms of reference and quarterly meetings and held in public with papers published on the OPCC's website.

The Commissioner has appointed a Deputy and three Assistant Commissioners who have specific portfolios to support the Commissioner in fulfilling his role.

3.3 Promoting the values for the PCC and Force and demonstrating the values of good governance through upholding high standards of conduct and behavior.

Police Officers, Police Staff and the Office of the Police and Crime Commissioner's Officers are all subject to policies and procedures covering discipline, grievance and standards of conduct.

The Commissioner and the Constabulary have arrangements in place to address fraud and corruption and also have procedures in place to enable staff to report any issues of concern in confidence.

The Commissioner and the Constabulary have taken early steps to prepare for the introduction of the new Code of Ethics for policing through the creation of an Integrity and Standards Board at the constabulary, reporting to an Ethics Committee which will oversee the embedding of a culture of fairness, integrity and respect within the constabulary. The PCC is represented on this committee.

The Joint Audit Committee had responsibility for considering allegations of Police Authority Member misconduct. The Standards regime was abolished under the Decentralisation and Localism Bill.

The Police and Crime Commissioner has clearly outlined who was responsible for the discharge of the responsibilities of the Office of the PCC within its Constitutional and Procedural Standing Orders, Scheme of Delegation, Contractual Standing Orders, Financial Regulations and formal constitution.

The Chief Executive is the appointed Monitoring Officer for the Office of the PCC. This role has a statutory duty to highlight any proposals, decisions or omissions by the OPCC which constitute, have given rise to, or are likely to give rise to, either a breach of the law, a breach of a statutory code, or which constitute maladministration or injustice.

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

The PCC, Deputy PCC and Assistant PCCs have signed up to a Code of Conduct which incorporates the 7 Nolan principles relating to Public Life. A Code of Conduct has also been agreed for the staff in the OPCC setting out what is expected from them in terms of their conduct.

Standards of professional behaviour are reinforced at every opportunity, including recruitment, induction and in meetings between officer / line manager. Robust vetting procedures are in place for all staff in the OPCC.

The Joint Audit Committee has been updated on the activity in relation to external inspections, including HMIC Integrity review and action has been taken to reflect the new Code of Ethics for Policing in the reports provided to the audit committee.

3.4 Taking Informed and transparent decisions which are subject to effective scrutiny and managing risk.

On 22 November 2012, the PCC approved and adopted a governance framework. This was reviewed in March 2013 and compliance with the OPCC governance framework will continue to be reviewed annually to ensure it remains fit for purpose.

On 30 November 2012, the PCC and Chief Constable formally approved arrangements for an interim Combined Audit Committee responsible for enhancing public trust and confidence in the governance of the OPCC and Lancashire Constabulary. It also assists the PCC in discharging statutory responsibilities in holding the Constabulary to account.

Permanent members have now been appointed to the Joint Audit Committee that will continue to provide assurance to the public that appropriate governance arrangements are in place for the PCC and the Constabulary.

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 Audit Committee. It assists the PCC in discharging his statutory responsibility for holding the Chief Constable to account. Minutes of the Audit Committee are published on the OPCC website.

The OPCC decision making process requires oversight by both of the statutory officers, ie the Monitoring Officer and 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 Commissioners 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 2012/13.

The PCC has established a risk management policy and procedures, which cover not only strategic business risks but also significant organisational and operational risks. 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 and scrutiny log are live documents that are routinely considered at all key meetings.

3.5 Developing the capacity and capability of all to be effective in their roles.

The OPCC holds fortnightly Planning Meetings for the Commissioner's senior team where there is opportunity to provide briefings on current issues; and a series of briefings and visits to partners is undertaken on a regular basis.

The PCC undertakes specific training as required for the emerging challenges of this new role and also benefits from forum meetings with other PCC's,
membership of APCC and input to senior OPCC officers from APACE and PACCTS.

The Commissioner Team and Officers have defined roles and areas of responsibility which are regularly reviewed at one to one sessions with the Chief Executive and Commissioner and through

the Senior Management Team meetings.

The two statutory officers, namely the Chief Executive and PCC's Chief Finance Officer are required to undertake continuing professional development in order to sustain professional qualifications. Officers regularly attend conferences and seminars upon issues of relevance to the delivery of policing and governance.

Training opportunities are identified throughout the year by both the Chief Officers and staff within the OPCC.

Regular staff meetings are held that provide an opportunity for staff to update and enhance their knowledge of key developments on an on-going basis.

All new staff are inducted into the work of the PCC and receive guidance appropriate to the roles to be performed.

3.6 Engaging with local people and other stakeholders to ensure robust public accountability.

The OPCC engages with a range of stakeholders, including both statutory and non-statutory organisations, through the Partnerships Officer and Senior Strategic Advisor's attendance at Community Safety Partnerships (CSPs) and Youth Justice Management Boards and members of the Commissioners Team attendance at a range of partnership boards including the Lancashire Criminal Justice Board, Lancashire Community Safety Strategy Group and Health and Wellbeing Boards. Attendance at these partnerships has been by agreement with stakeholders and has been welcomed with the OPCC providing reports on a regular basis.

Where the OPCC has entered into joint commissioning or funding agreements with Stakeholders the OPCC is represented on management and/or strategic governance boards related to the initiatives or schemes being supported, if this is not covered by stakeholder partnerships already attended.

The PCC uses a series of digital and social media channels to keep residents, visitors and local businesses informed about what the PCC is doing in terms of news, events, promotions, consultations, engagement activity and job opportunities.

The PCC's website is used as a front counter of information showcasing all decisions made by the PCC and progress against the Police and Crime Plan. The use of the corporate website and social media will continue to be used to engage with and provide greater access to information for the community.

The public are provided with a variety of opportunities to comment on decisions and policing services including: telephone and on-line consultation; specific research with communities that cut across geographical areas (e.g. people with different faiths, people of black and minority ethnic origin, older people, people with disabilities, young people and vulnerable adults); engagement with elected members to inform understanding of residents issues; door to door canvassing and local surgeries, which helps to build up knowledge of local community issues and the PCC also meets regularly with residents in their communities so he can bring their views into the decision making process.

The PCC provides opportunities for the public to influence decisions and provide feedback on decisions, services and policies and provides the chance to be involved in the commissioning of services.

4 REVIEW OF EFFECTIVENESS

The OPCC 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 which is used to support the certificates of assurance signed by each of the chief officer team.

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

OPCC

The OPCC has overall responsibility for the discharge of all the powers and duties placed on it and has a statutory duty to 'maintain an efficient and effective police force'. The review and maintenance of the governance framework is undertaken by the joint OPCC / Constabulary Audit Committee that will discuss the majority of governance issues, referring reports to the PCC when it is felt necessary.

Lancashire Constabulary

The Chief Constable has responsibility for conducting a review of the effectiveness of the governance framework within the Constabulary at least on an annual basis. This review is informed by the work of the Chief Finance Officers, Head of Internal Audit, and the Risk and Assurance Managers within the Constabulary who have responsibility for the development and maintenance of the governance environment. In preparing the Annual Governance Statement for 2013 /14 the officers of the OPCC have placed reliance on this review and the Constabulary's resulting Annual Governance Statement.

Joint Audit Committee

The joint Audit Committee receives regular reports on governance issues, including the review of the Annual Governance Statement for inclusion in the Annual Statement of Accounts and update reports on progress made in addressing any significant governance issues included in it.

Head of Internal Audit

Internal audit provides an independent and objective opinion to the OPCC on the control environment by evaluating its effectiveness in achieving the organisational objectives. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The Head of Internal Audit reports regularly to the Chief Executive and Chief Finance Officers.

Regular monitoring reports and an annual report are received from the Internal Auditors, providing the Joint Audit Committee with an opportunity to challenge the assurances that have been obtained over the operation of key controls.

The responsibility for updating, maintaining and reviewing the systems of internal control rests with the OPCC, but it takes significant assurance from the work of internal audit. In fulfilling this responsibility, each year it receives an opinion on the overall adequacy and effectiveness of the OPCC's internal control environment, which provides details of any weaknesses particularly relevant to the preparation of the Annual Governance Statement.

In maintaining and reviewing the governance framework, the PCC's Chief Finance Officer places reliance on the work undertaken by Internal Audit and in particular the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control. For 2013/14 the Head of Internal Audit is of the opinion, that taking into account all available evidence, the OPCC and Lancashire Constabulary internal control environments are generally sound and that, based on the internal audit work undertaken during the year, they are able to give substantial assurance on the internal control environment. In their annual audit report, the Audit Manager states 'there was a generally sound system of internal control during the year, adequately designed to meet the Constabulary's and the OPCC' s objectives and controls were generally applied consistently, although we identified areas where control needs to be strengthened'.

Recommendations arising from audit reports are reviewed and action plans developed in order to address these. These are followed up throughout the year by internal audit and are reported through to the Joint Audit Committee.

External Audit

External Audit are an essential element in ensuring public accountability and stewardship of public resources and the corporate governance of the OPCC's services, with their annual letter particularly providing comment on financial aspects of corporate governance, performance management and other reports.

Other areas for consideration:

In addition to the above, other review / assurance mechanisms such as Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission who are charged with promoting the effectiveness and efficiency of policing, improving performance and sharing good practice nationally and the Health and Safety Inspectorate are also relied upon.

The review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the senior managers within the OPCC and the Constabulary who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

As part of the assurance gathering process for this statement, certificates of assurance have been completed and will be signed by the OPCC's Chief Executive and Chief Finance Officer.

5 PROGRAMME OF IMPROVEMENT FOR GOVERNANCE ISSUES

Key strategic risks, such as delivering an effective financial strategy, are monitored and reviewed throughout the year and form part of the Commissioner's risk register. Other emerging governance issues that will be addressed during the year are;

Stage 2 Transfers

The Stage 2 transfer was implemented on 1 April 2014 having an impact on both staffing and governance arrangements and will also have some financial implications. There is the potential for this to generate governance and financial risks and the situation will be monitored closely in 2014/15 and any risk that might emerge will be brought to the Joint Audit Committee.

Financial Risks

Medium term financial planning for the PCC identifies that some £20m of savings must be delivered by 2017/18. This is in addition to the £60m of savings that have been delivered in the period 2011/12 to 2014/15.

This represents a significant challenge given the scale of reductions already made and the structural changes made to the constabulary's operating model. There is therefore a risk of a negative impact on service delivery and organisational resilience. In addition, financial pressures on partners may increase the risk that they will withdraw from shared funding initiatives.

We propose over the coming year to take steps to address the above matters to enhance our governance arrangements further. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	**Signed:**
----------	**----------**
Clive Grunshaw	**Angela Harrison**
Police and Crime Commissioner	**(Interim) Chief Executive and Monitoring Officer**
Date: 30 September 2014	**Date: 30 September 2014**

.

GLOSSARY

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

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

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

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

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

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

Appropriation
A contribution to or from a financial reserve.

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

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

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

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

Capital creditors
Amounts owed by the PCC for spending on buying or improving 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).

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

Capital investment

Money invested in capital projects.

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

Capital 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 schemes
Another term for 'capital projects'.

Capitalise
To treat as capital expenditure rather than revenue expenditure.

Capital elements
Various items of costs e.g. materials and interest payments.

Capital funding
Money to support spending on capital projects.

Capital receipts
Amounts received from the sale of capital assets. These can only be used for 'capital purposes' – to repay an existing debt or to finance new capital expenditure. Amounts received which have not yet been used are referred to as 'capital receipts unapplied'.

Capital reserves
Amounts set aside to support future capital projects.

Capital value
Amount spent on capital.

Cash balance
Cash available to invest on the money market.

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

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

Central items
Central overheads e.g. payroll costs.

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

Class of tangible non-current assets
The classes of tangible 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.

Collection fund
The system used by district and borough councils to keep Council Tax separate from their own accounts. The amount in the collection fund each year is fed into the Council Tax calculation for the following year.

Construction Contract
A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

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

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

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

Council Tax precept
The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The PCC's Council Tax income is charged through a precept on the district councils' collection funds. (The Environment Agency also charges the county council a precept for flood prevention purposes).

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.

Debt redemption
This is where a debt is repaid early.

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

Finance Lease
A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

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

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.

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

General Fund
The main revenue fund used to provide police services (also known as the 'General Fund'). 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 Activities
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 current replacement cost
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

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.

Nil consideration
Where no charge is made for an item.

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.

Precept

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

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.

Realisable value
The amount for which an asset can be sold.

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

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

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

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

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

Revenue contribution to capital outlay
This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

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

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

Specific grants
Government grants for a particular service.

Tangible assets
Assets which have a physical form – for example, buildings, furniture and equipment.

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

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

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

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

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

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