

**CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY**

**STATEMENT OF ACCOUNTS**

**2016/17**

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**STATEMENT OF ACCOUNTS 2016/17**

**CONTENTS**

	<b>Page</b>
<b>Narrative Report to the Statement of Accounts</b>	1
<b>Statement of Responsibilities</b>	14
<b>Financial Statements:</b>	
Comprehensive Income and Expenditure Statement	15
Movement in Reserves Statement	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Accounts	19
Statement of General Accounting Policies	49
Police Pension Account	51
Audit Report and Opinion	54
Annual Governance Statement	57
Glossary of Terms	66

## NARRATIVE REPORT

### Background

Under the Police Reform and Social Responsibility Act (PRSRA) 2011, Police and Crime Commissioners (PCC) and Chief Constables (CC) are deemed to be separate entities (Corporations Sole) and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 (now replaced by the Local Audit and Accountability Act 2014) which means that they are both required to produce accounts which are subject to audit.

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

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

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

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

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

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

The Accounts and Audit (England) Regulations 2015 require authorities to follow "proper practices in relation to accounts" when preparing the accounts. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 2016/17 Statement of Accounts is prepared in accordance with the Code.

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

### Contents of the Statement of Accounts

The statement gives the reader an overall impression of the finances of the CC for the financial year ended on 31 March 2017 (referred to as 2016/17).

The various sections contained within the consolidated financial statements are:

**Comprehensive Income and Expenditure Statement (CIES)** - This statement shows the accounting cost in the year of the CC providing services in accordance with generally accepted accounting practices, rather than the amount to be funded ultimately from taxation. The PCC raises taxation to cover expenditure in accordance with regulations and uses this income to provide intra-group funding to the CC. The

accounting costs and those costs ultimately funded by taxation may be different. The taxation position is shown in the movement in reserves statement.

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

**Balance Sheet**– This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the CC. Whilst the CC does not own any long-term assets he does recognise in his balance sheet, assets and liabilities relating to police officers and police staff under the direction and control of the CC. The net assets of the CC (assets less liabilities) are matched by reserves held by the CC

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

**Auditor's Report** – This sets out the opinion of the CC's external auditor on whether the accounts present a true and fair view of the financial position and operations of the CC for 2016/17

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

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

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

### **Changes to the presentation of the financial statements and introduction of the Expenditure and Funding Analysis**

Following CIPFA's "Telling the Story" review of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. The new Expenditure and Funding Analysis brings together performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Previously this segmental analysis was mandated by the service expenditure analysis included in CIPFA Service Reporting Code of Practice. Whilst this provided consistency in national reporting it was not consistent with the reporting

frameworks across individual local authorities and hence its usefulness to readers was brought into question. This change significantly provides the link between internal management reporting and the statutory reporting.

The Expenditure and Funding Analysis, shown as Note 1 on Page 20, along with the additional information included in that note, provide a reconciliation between the segmental analysis included in the Comprehensive Income and Expenditure and the figures reported to management and shown in the Revenue Outturn section of this report, below.

The 2016/17 Code also introduces a new streamlined Movement in Reserves statement. The impact on the accounts of the CC is mainly cosmetic, with the introduction of a separate note, Note 7 " Adjustments between accounting basis and funding basis under regulation", which details the adjustments that are made to the total comprehensive income and expenditure recognised by the CC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the PCC to meet future revenue expenditure.

### Financial performance of the Chief Constable

The PCC sets both the revenue budget and the capital programme and he allocates resources to the Chief Constable to provide an efficient and effective policing service to the people of Lancashire.

To assist the Chief Constable in managing the resources allocated, both the revenue budget and capital programme are devolved to officers within the Constabulary who are nearer to the point of policing delivery and therefore can ultimately influence costs. As in 2015/16 pay budgets and costs are managed centrally, with an acceptance by the PCC that, although non pay costs would be managed locally, budget holders would not individually be held to account but the Chief Constable's financial performance would be judged against the overall "cash limit" agreed with the PCC.

The PCC budget for 2016/17 was set against a slight reduction in Central Government core grant support from £193.568m in 2015/16 to £192.537m in 2016/17 equivalent to a 0.5% reduction. The PCC agreed an increase in Council Tax from £159.06 in 2015/16 to £162.22 in 2016/17, equivalent to a 1.99% increase for a Band D equivalent.

The following table provides an overview of the overall resources for 2016/17 compared to 2015/16:-

	2015/16 £m	2016/17 £m	Change £m
<b>Initial Expenditure Requirement</b>	<b>272.020</b>	<b>272.078</b>	<b>0.058</b>
Growth Requirements	-0.327	5.052	5.379
Efficiency Savings	-8.285	-10.968	-2.683
Total Resources (Main and Specific Grant and Council Tax)	<b>263.408</b>	<b>266.162</b>	<b>2.754</b>

The budget allocated to the Chief Constable in 2016/17 was £248.651m (93.4% of total resources) compared to £ 248.244m (94.2% of total resources) in 2015/16 equivalent to an increase of £0.407m

In managing the budget in 2016/17 the non-pay revenue budget is managed by Divisional Commanders and Heads of Departments but overseen by the relevant Chief Officer (Deputy Chief Constable, Assistant Chief Constables and Director of Resources) responsible for specific functional areas. Pay budgets are centralised with decisions on budgeted posts and vacancy management made through Strategic Resourcing Board and Vacancy/Redeployment Panel.

The continuing austerity period had a significant impact in Lancashire in 2016/17 resulting in the Chief Constable having to identify savings of some £11m resulting in an overall net workforce reduction of 77 posts in addition to the 75 posts lost in 2015/16 when the savings were £8.3m.

### 2016/17 Revenue Budget and Outturn

The PCC set an initial overall budget of £261.521m for 2016/17 of which £248.651m was allocated to the Chief Constable. In addition, rules for Devolved Financial Management (DFM) allow the Chief Constable to carry forward any unused resources from the previous year to mitigate against unforeseen cost pressures. Accordingly some £2.058m was available in 2016/17 in addition to the allocated budget from the PCC of £248.651m. During the year £0.059m of the balances brought forward were used, £0.038m of which were applied by the PCC to fund additional capital expenditure, with £1.999m remaining unutilised at 31 March 2017.

The following table provides a summary of spend, by Chief Officers' area of responsibility, compared to the revised budget for 2016/17 of £248.672m (after the use, in year, of balances brought forward and utilised by the Chief Constable):

Responsibility Area	Revised Budget	Actual Spend	Variance
	£m	£m	- Underspend / Overspend £m
Centrally Managed Pay Budgets	193.109	194.208	+1.099
ACC Territorial Operations	8.606	8.195	-0.411
ACC Specialist Operations	10.489	10.731	+0.242
Director of Resources	15.227	14.216	-1.011
Deputy Chief Constable	1.963	1.967	+0.004
<b>Sub Total Chief Constable's Devolved Resources</b>	<b>229.394</b>	<b>229.317</b>	<b>-0.077</b>
Non Devolved resources	19.278	17.032	-2.246
<b>Total Resources Consumed on Behalf of PCC</b>	<b>248.672</b>	<b>246.349</b>	<b>-2.323</b>

The year-end position indicates a total underspend of £2.323m, which was attributable to savings arising from vacancies and turnover in both police officers and police staff as well as the continuing "spend less" approach to non-pay budgets which has been the case for a number of years. The overspend on centrally managed pay shown above is offset by the

underspend on non-devolved resources where monies were retained from estimated turnover savings of £2.3m. Budget holders are fully aware of the financial pressures the Constabulary continually faces and play their part by scrutinising spend to ensure only those costs that are operationally necessary are incurred.

A number of cost pressures have been contained in –year within the resources allocated to the Chief Constable as follows:-

- Futures Implementation £0.435m - Spend represents £0.039m for the Voluntary Exit scheme for police officers together with costs of £0.396m costs from a number of internal reviews i.e.(redundancy/pension strain/training/equipment).
- Fracking £0.265m –additional costs incurred in policing the anti-fracking protests.

All other costs have generally been of a recurring nature.

The underspend of £2.323m was transferred to the Transitional Reserve.

### Capital Funding and Outturn 2016/17

The PCC initially approved a capital investment programme for 2016/17 of £34.888m and during the year approved new proposals from the Chief Constable totalling £1.931m as well as reducing the programme for slippage and underspends identified during the year totalling £12.023m. This provided an amended programme value of £24.796m for 2016/17.

The capital programme continued to reflect the strategic requirements agreed between the PCC and Chief Constable to invest in ICT, the Estate and Vehicle infrastructure. The investment reflects a combination of ensuring that a robust infrastructure is in place as required for an emergency 24/7 service, investment aimed at providing more effective and efficient service delivery and an enabler to achieve revenue savings to assist in meeting the gap over the Comprehensive Spending Review (CSR) period.

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

The following table summarises the position on the capital programme for 2016/17:

	Programme Value	Actual Spend	Slippage	Variance
	£m	£m	£m	-Underspend/ Overspend £m
IT Strategy	9.499	8.389	0.386	-0.724
Accommodation Strategy	7.429	8.581	-1.316	-0.164
Vehicle Replacement	4.618	3.693	0.925	0.000
Other Schemes	3.250	1.935	1.451	+0.136
<b>Total</b>	<b>24.796</b>	<b>22.598</b>	<b>1.446</b>	<b>-0.752</b>

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

The actual spend in year of £22.6m (£14m in 2015/16) enabled a number of important investments, particularly around ICT, to be undertaken in respect of the infrastructure supporting front line officers, the provision of body worn video facilities, and mobile working to increase visibility. Investment in the replacement of key systems was also made in year. In addition work commenced on the new West Division HQ in Blackpool.

## **Reserves**

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

## **Pension Liabilities**

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

At 31 March 2017 the net pensions' liability of the CC, calculated by the actuary, is £3,697m (an increase of £751m over the previous year's figure of £2,946m). The net liability is split between the Local Government Pension Scheme (£130m) and the Police Pension Schemes (£3,567m). The police schemes are unfunded, i.e. no investments or other assets exist to offset future liabilities.

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

## **Police Pension Account**

A police pension account was set up on 1 April 2006 and administers all of the police pension schemes (the 1987, 2006 and the 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2016/17 follow the main statements.

Benefits payable are funded by contributions from employees and employers and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from the Police General Fund. Prior to 2015/16 this additional contribution was financed in full by a top-up grant from the Home Office received by the PCC.

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. The amount of additional contribution required from the PCC in 2016/17 was £56m (2015/16: £57.5m) with £53m financed from Home Office grant (2015/16: £54.4m) and the balance being funded from within the budget allocated to the CC.

## **Operational Performance**

The Constabulary has a strong track record in managing performance across its services.

This is reflected in the positive statements to this effect from Her Majesty's Inspectorate of Constabulary (HMIC) in its 'Police Efficiency, Effectiveness and Legitimacy' (PEEL) assessment carried out during 2016/17 and resulting in the following assessments:

Year	Effectiveness	Efficiency	Legitimacy
2016	Good	Good	Good

Ultimate scrutiny of performance rests with the PCC and in holding the Chief Constable to account the PCC established four priorities for Lancashire Constabulary during 2016/17 which are aligned to the Police & Crime Plan. These are:

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

Taking each of these areas in turn, the performance in 2016/17 is set out in the following paragraphs:

#### Protecting Local Policing

Measures utilised to monitor service delivery include response times to answer 999 and 101 requests for service; the response target of 10 seconds has been achieved in most months over the year.

The table below shows 999 incoming calls from April 2016 to March 2017

	Offered	Achieved	Service Level	Average speed to answer	Abandonment rate
April	15,794	13,931	88.20%	4.4	0.7%
May	18,623	15,105	81.11%	6.4	1.0%
June	19,157	13,693	71.48%	9.9	1.8%
July	20,658	15,186	73.51%	8.9	1.9%
August	21,245	14,355	67.57%	11.8	2.0%
September	20,563	13,362	64.98%	13.3	2.6%
October	20,236	14,457	71.44%	9.4	1.3%
November	17,079	13,629	79.80%	6.5	0.8%
December	18,184	13,592	74.75%	7.8	0.6%
January	16,396	13,770	83.98%	5.1	0.8%
February	15,872	12,397	78.11%	6.6	0.8%
March	18,770	13,573	72.31%	8.1	0.8%

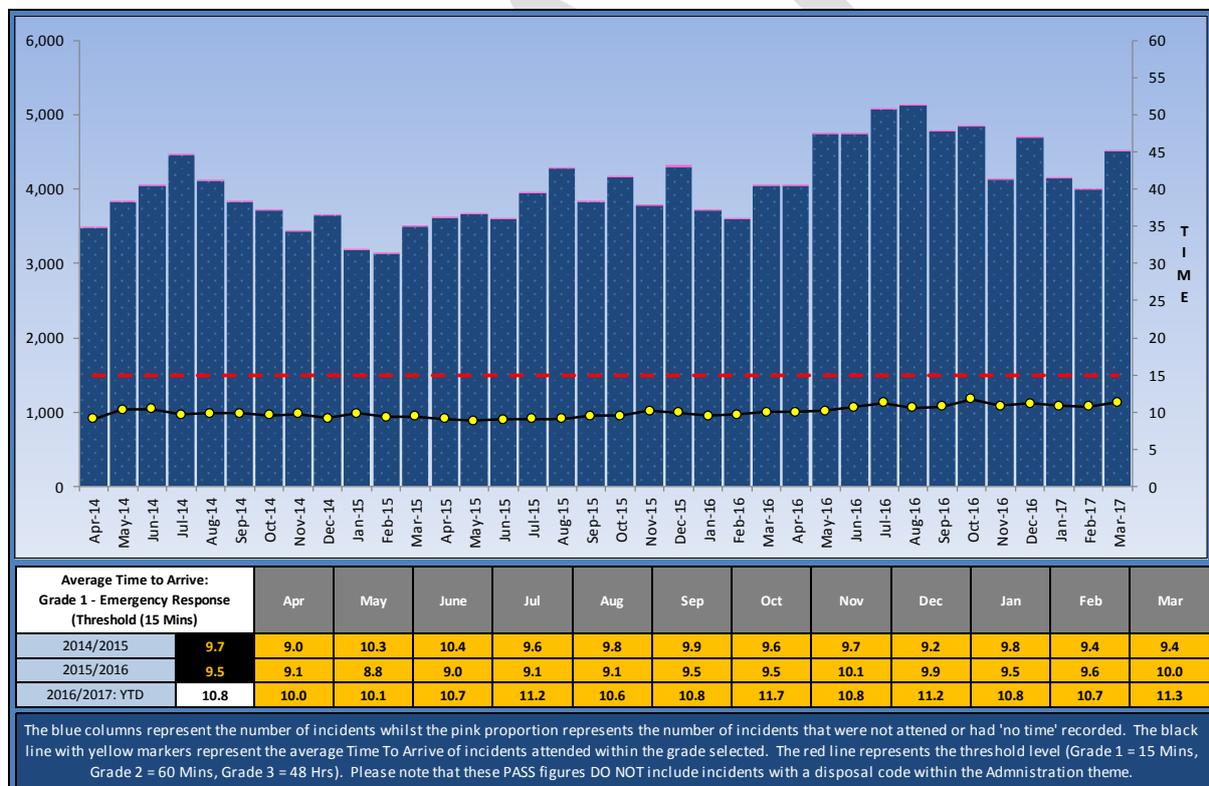
CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NARRATIVE REPORT

	Offered	Achieved	Service Level	Average speed to answer	Abandonment rate
Q1	53,574	42,729	79.76%	6.9	1.2%
Q2	62,466	42,903	68.68%	11.3	2.2%
Q3	55,499	41,678	75.10%	7.9	0.9%
Q4	51,038	39,740	77.86%	5.1	0.8%
YTD	222,577	167,050	75.05%	8.7	1.2%

The 'Time to Arrive' at Grade 1 - Emergency incidents is also measured. The aim is to arrive at emergency incidents within 15 minutes. In the last 12 months we have seen an increase of 1.3 minutes in the time taken to arrive at emergency incidents. However, we are consistently below the 15 minute National threshold and the figure for 2016/17 was 10.8 minutes.

A number of initiatives are being employed to ensure information is available to the public in a variety of formats to ensure those contacting Lancashire Police are those most in need of a specific service. The incoming call to log ratio is used to measure this. By comparing the number of calls which result in an incident log being created we can monitor the quality of incoming enquiries ensuring we are efficiently managing and prioritising demand. The call to log ratio is steadily increasing.

The chart below shows time to arrive at emergency incidents by month since April 2014.



The current financial climate has seen a reduction in the overall number of Police officers and staff. The Constabulary's Citizens in Policing plan seeks to engage the public in supporting the community in a number of roles. There are currently 472 Special Constabulary Officers within Lancashire Constabulary. There was an intake of 62 in January 2017 and there are currently 165 applications in process which means the April 2017 intake will be full. This coupled with the increasing use of technology has helped to ensure that engagement with and

visibility in Lancashire's communities remains high and the launch of the Lancashire Volunteer Partnership will help to ensure that we remain engaged within communities.

### Tackling Crime & Re-Offending

Quantitative measures in this area are complex; however an increase in reporting and referral of cases of vulnerability is a positive indicator. In keeping with the national trend we have seen an increase in all sexual offences being reported of 24.3% this year with rape specifically increasing by 30.1%. A number of high profile national cases are seen to have improved public confidence in reporting especially around historic cases of long term abuse.

Within domestic abuse referrals we have seen an increase of 11.2% in the high risk category, 19.6% increase in medium and 15.2% increase in standard risk cases. The overall number of domestic abuse incidents has increased by 16.0% since last year. This change in risk grading is seen to be as a result of improved training and interventions around high risk cases markers and understanding on the plethora of risk factors in such cases. The Constabulary has also invested heavily in Early Action which is aimed at targeting those in the Lancashire communities who are vulnerable. The approach is aimed at addressing vulnerability at the earliest opportunity and reducing the potential for risk and harm.

Overall crime in Lancashire has increased by 10.9% (which equates to 10,548 more crimes being reported) with a total for 2016/17 of 107,435 crimes being recorded. The main categories which have contributed to the increase are:

- Violence Against the Person – Up 4,811 crimes (18.6%)
  - Harassment – Up 1,691 crimes (55.8%)\*
- Criminal Damage & Arson - Up 626 crimes (3.6%)
- Public Order Offences - Up 834 crimes (38.1%)
- Public Fear, Alarm or Distress - Up 712 crimes (51.8%)
- All Sexual Offences - Up 636 crimes (24.3%)
- Vehicle Offences - Up 1,229 crimes (13.8%)
  - Theft from a Motor Vehicle - Up 1,100 crimes (20.1%)

In keeping with the explanation around domestic abuse and sexual offence reporting, an increase in reporting of these crime categories is seen as a positive indicator of public confidence in Lancashire Police.

*\*Change in Home Office Counting Rules for Recorded Crime*

### Supporting Vulnerable People & Victims

There has been an increase of 23.9% in Hate Crimes recorded by Lancashire Constabulary in 2016/17. These will be influenced by the continued improvement within Lancashire Constabulary to understand and deal with Hate Crime effectively. The following processes have been implemented to ensure this work continues:

- Consistent Hate Crime officer guidance has now been adopted
- Consistent daily crime / incident scanning processes have been adopted by all divisions
- There is an ongoing Hate Crime Data Integrity audit being completed by the Force Crime Registrar

- Plans to expand third party reporting across Lancashire are being implemented as part of the Lancashire Hate Crime Strategy.

As already mentioned there has been an increase of 30.1% (244 crimes) in Lancashire Constabulary for the 2016/17 period compared to 2015/16. This increase reflects a positive trend whereby victims appear to have more confidence in reporting to the police with evidence and research showing that victims following support from counsellors, doctors or other support services have taken steps to report the offences to the police, often not wanting to pursue a criminal complaint but to finalise a step in their recovery / journey.

#### Developing Safe & Confident Communities

User Satisfaction surveys are a key measure in this area. The User Satisfaction data is provided by our in-house survey bureau and it's the first year that the surveys have been conducted in-house. The surveys for 2016/17 have been conducted under the mandated guidance provided via the Home Office under Annual Data Requirement 443.

The table below shows the percentage of those surveyed who identified as being 'At Least Fairly Satisfied' with the service they have received and are presented for 'Four Groups Combined' (Burglary, Vehicle Crime, Violent Crime and Hate Incidents).

Aspect of Question	12 Months Ending March 2017
Initial Contact	90.2%
Police Actions	71.5%
Follow Up	59.3%
Treatment	88.1%
Whole Experience	76.6%

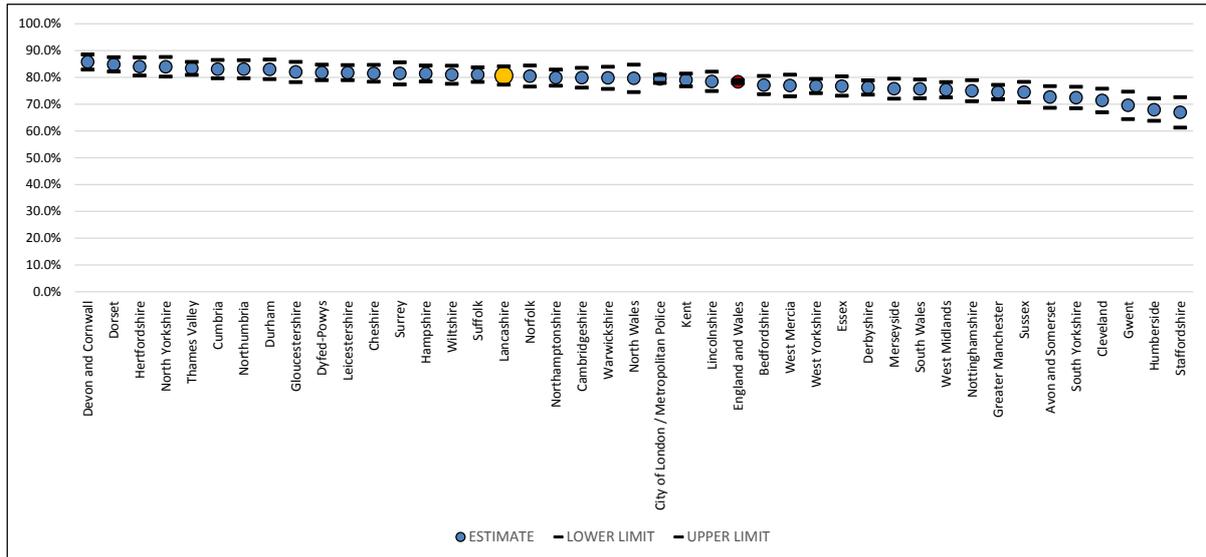
This is a slight reduction of 1.9% in the percentage satisfied with the 'Whole Experience' when compared to 2015/16, however, this is not statistically significant. There is a comprehensive user satisfaction delivery plan in place for the Constabulary which builds on emerging technologies to increase contact with officers (follow up) and targeted intervention for individual officer and team performance.

The Public Confidence data is obtained via the Crime Survey for England & Wales. One of the questions in the Crime Survey for England & Wales relates to 'Overall Confidence in Local Police'. The data from the Crime Survey for England & Wales is only released quarterly and the most recent results available are for the 12 month period ending September 2016. The current result stands at 80.7% and is down by 1.1%.

Due to the way in which surveys are conducted it is only possible to provide a result for the sample of people that have completed the questionnaire, therefore, the sample result has a degree of variability. However, the decrease of 1.1% is not statistically significant and should be treated as no change.

The chart below, if you use the point estimate result, shows Lancashire (depicted with a large yellow circle) is above the figure for England & Wales (depicted with red circle) and is 17th in the country for 'Overall Confidence in Local Police'.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NARRATIVE REPORT



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

Question	Estimate Result	National Position	MSG	North West Region
Police can be relied on when needed	64%	12 <sup>th</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>
Police would treat you with respect	87.2%	23 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>
Police would treat you fairly	70.4%	14 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
Police understand local concerns	73.5%	15 <sup>th</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Police deal with local concerns	65.3%	11 <sup>th</sup>	1 <sup>st</sup>	3 <sup>rd</sup>

### Financial Risks going forward

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

DFM balances of £1.999m were available to the Chief Constable at the end of 2016/17 and will mitigate the risk around unbudgeted and unforeseen costs arising in 2017/18.

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

## Financial Outlook

The PCC, in conjunction with the CC, has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of more than £92m of savings are likely to be required over the period 2011/12 – 2019/20 of which £72m has already been delivered at 31 March 2017.

The longer term financial position is reviewed on a regular basis and further savings of around £20m are currently forecast to be required for the period 2017/18 to 2019/20. 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 2017/18 and future years remains uncertain.

Specific Risks are:

- **Future levels of top-slicing** - The PCC's MTFs includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2016/17 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.
- **Partner Funding for PCSOs** - The PCC is committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have now confirmed funding will not be available from 2017/18 and the future level of funding remains uncertain.
- **Replacement of Airwave** - The emergency services communications network 'Airwave' is being replaced over the next four years. Lancashire Constabulary along with other forces in the region is the first scheduled to transfer to the new network in 2018/19 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure. It is not clear if any funding will be made available from central government for these costs. It is also unclear how much this programme will cost.
- **Review of the Police Funding Formula** - The Home Office intends to implement a revised funding formula with considerable work being undertaken in 2016/17 which will impact upon the amount of grant received by the PCC. The timescale for consultation on the process/outcome is still unknown. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years. However, for modelling purposes a reduction in resources from 18/19 has been included in the financial plans.
- **Impact of cuts to Local Government funding** - Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental

health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS

- **Changing nature of Police demand** – The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognised by the National Audit Office (NAO) crime levels are a limited measure of demand and do not show the full range of work carried out by the police, much of which is “volume vulnerability” and not crime related activity. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.
- **Changes to the discount rate for pension costs** - The level of discount applied to employer's costs in respect of police pension payments in 2019/20 is to reduce which will in turn increase the costs for the employers. At this stage it is not possible to calculate the value of this change but it is expected to be a significant annual increase in cost.

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

26 May 2017

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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

The Chief Constable is required to:

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

I approve these Statements of Accounts for the year-ending 31 March 2017

*To be signed when the audited accounts are approved at the end of July*

Chief Constable of Lancashire Constabulary

### The Chief Financial Officer's Responsibilities

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

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

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Director of Resources has also:

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

I certify that this Statement of Accounts is that upon which the auditor should enter a certificate and an opinion. It presents a true and fair view of the financial position of the Chief Constable of Lancashire Constabulary and his transactions as at 31 March 2017 and for the year then ended.

IAN L COSH MA, CPFA  
Director of Resources and the Chief Constable's Chief Finance Officer  
26 May 2017

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2015/16 Net Exp (restated) £000		Notes	2016/17		
			Gross Exp £000	Gross Inc £000	Net Exp £000
213,028	Centralised Pay Budgets		204,536		204,536
33,525	Director of Resources*		30,473		30,473
11,817	ACC-Territorial Ops.*		10,239		10,239
10,261	ACC-Specialist Ops.*		11,879		11,879
3,005	Deputy Chief Constable*		2,999		2,999
36,663	Constabulary Non-Devolved budgets*		32,374		32,374
(341,371)	Funding received by CC from PCC	10	-	(333,888)	(333,888)
<b>(33,072)</b>	<b>Net Cost of Services</b>		<b>292,500</b>	<b>(333,888)</b>	<b>(41,388)</b>
96,646	Net Interest on Defined Benefit Liability	14			101,597
63,574	<b>Deficit on Provision of Services</b>				60,209
(177,666)	Re-measurements of pension assets/liabilities	8			690,541
<b>(177,666)</b>	<b>Other Comprehensive (Income) &amp; Expenditure</b>				<b>690,541</b>
<b>(114,092)</b>	<b>Total Comprehensive (Income) &amp; Expenditure</b>				<b>750,750</b>

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

Director of Resources	Business support functions and ICT
ACC-Territorial Ops.	Divisional operational policing and contact management
ACC-Specialist Ops.	HQ crime and HQ operations
DCC	Human resources, professional standards and learning and development
CC Non-Devolved	Includes collaboration, injury pensions, grant funded projects and other miscellaneous

## MOVEMENT IN RESERVES STATEMENT 2015/16 and 2016/17

This statement shows the movement in the 2015/16 and 2016/17 financial years on the different reserves held by the CC. At present, the only transactions shown in these statements relate to the Pensions Reserve and the Accumulated Absences Reserve (reflecting movements relating to police officers and police staff under the direction and control of the CC). All other reserves are managed by the PCC. The Deficit on the Provision of Services line shows the true economic cost of providing the CC's services

	Note	General Fund Balance £000	Total Usable Reserves £000	Pensions Reserve £000	Accumulated Absences Reserve £000	Total Unusable Reserves £000	Total Reserves £000
<b>Balance at 1 April 2015</b>		-	-	<b>(3,059,492)</b>	<b>(5,635)</b>	<b>(3,065,127)</b>	<b>(3,065,127)</b>
<b>Movement in reserves during 2015/16:</b>							
Total Comprehensive Income & (Expenditure)	7	(63,574)	(63,574)	177,666	-	177,666	114,092
Adjs between accounting basis & funding basis under regulations:		63,574	63,574	(63,953)	379	(63,574)	-
<b>Balance at 31 March 2016</b>		-	-	<b>(2,945,779)</b>	<b>(5,256)</b>	<b>(2,951,035)</b>	<b>(2,951,035)</b>
<b>Movement in reserves during 2016/17:</b>							
Total Comprehensive Income & (Expenditure)	7	(60,209)	(60,209)	(690,541)	-	(690,541)	(750,750)
Adjs between accounting basis & funding basis under regulations:		<b>60,209</b>	<b>60,209</b>	<b>(60,321)</b>	<b>112</b>	<b>(60,209)</b>	-
<b>Balance at 31 March 2017</b>		-	-	<b>(3,696,641)</b>	<b>(5,144)</b>	<b>(3,701,785)</b>	<b>(3,701,785)</b>

**BALANCE SHEET**

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

31 March 2016		Notes	31 March 2017
£000			£000
7,472	Short Term Debtors –Intragroup Debtor		6,672
<b>7,472</b>	<b>Current Assets</b>		<b>6,672</b>
(12,728)	Short Term Creditors	11	(11,816)
<b>(12,728)</b>	<b>Current Liabilities</b>		<b>(11,816)</b>
(2,945,779)	Pensions Liability	14	(3,696,641)
<b>(2,945,779)</b>	<b>Long Term Liabilities</b>		<b>(3,696,641)</b>
<b>(2,951,035)</b>	<b>Net Assets</b>		<b>(3,701,785)</b>
(2,945,779)	Pensions Reserve	8	(3,696,641)
(5,256)	Accumulated Absences Reserve	8	(5,144)
<b>(2,951,035)</b>	<b>Total Unusable Reserves</b>		<b>(3,701,785)</b>

## CASH FLOW STATEMENT

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

2015/16 £000		2016/17 £000
63,574	Net (surplus)/deficit on the provision of services	60,209
(63,574)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 12)	(60,209)
-	<b>Net Cash Flows from Operating Activities</b>	-

## NOTES TO THE ACCOUNTS - Index

Number	Title	Page No.
1	Expenditure and Funding Analysis	20
2	Expenditure and Income Analysed by Nature	23
3	Critical judgements in applying accounting policies	23
4	Accounting standards that have been issued but not yet adopted	23
5	Assumptions made about the future and other major sources of estimation uncertainty	23
6	Events after the Balance Sheet date	24
7	Adjustments between accounting basis and funding basis under regulation	24
8	Unusable reserves	25
9	Officers' remuneration	26
10	PCC Funding of the CC	30
11	Creditors	31
12	Cash Flow Statement-adjustments to net (surplus)/deficit on the provision of services for non-cash movement	31
13	Related parties	31
14	Defined benefit post- employment benefits	34
15	Publicity	48
16	External audit costs	48
17	Contingent Liabilities	48

## 1. EXPENDITURE AND FUNDING ANALYSIS

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

2015/16			2016/17		
Net Exp chargeable to Police General Fund	Adjs between the funding and accounting basis	Net Exp in the Comprehensive Inc and Exp Statement	Net Exp chargeable to Police General Fund	Adjs between the funding and accounting basis	Net Exp in the Comprehensive Inc and Exp Statement
£000	£000	£000	£000	£000	£000
194,629	18,399	213,028	194,320	10,216	204,536
33,525	-	33,525	30,473	-	30,473
11,817	-	11,817	10,239	-	10,239
10,261	-	10,261	11,879	-	11,879
3,005	-	3,005	2,999	-	2,999
88,134	(51,471)	36,663	83,978	(51,604)	32,374
(341,371)	-	(341,371)	(333,888)	-	(333,888)
-	(33,072)	(33,072)	-	(41,388)	(41,388)
-	96,646	96,646	-	101,597	101,597
-	63,574	63,574	-	60,209	60,209

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

The table below explains the differences between segmental figures that are shown in the Net Cost of Services chargeable to Police General Fund and those figures reported to the CC at outturn which are shown under the same segmental headings in the 2016/17 Narrative Report (Page 4).

	Net Exp chargeable to Police General Fund	Amounts included in the 2016/17 Outturn figures (Page 4) but not included in Net Cost of Services in the CIES (Page 15)				Outturn Report
		Income reported in PCC CIES	Included in Other Income & Expenditure	Movement in reserves-either budgeted or approved in year	PCC funding of Constabulary expenditure, both budgeted and in-year.	
	£000	£000	£000	£000	£000	£000
<b>Chief Constable:</b>						
Centralised Pay Budgets	194,320	(112)	-	-	-	<b>194,208</b>
Director of Resources	30,473	(1,111)	(407)	(156)	(14,583)	<b>14,216</b>
ACC-Territorial Ops.	10,239	(2,015)	-	(29)	-	<b>8,195</b>
ACC-Specialist Ops.	11,879	(1,105)	-	(43)	-	<b>10,731</b>
Deputy Chief Constable	2,999	(1,031)	-	(1)	-	<b>1,967</b>
Constabulary Non-Devolved budgets	83,978	(14,925)	(53,019)	986	12	<b>17,032</b>
Funding received from the PCC	(333,888)	-	-	-	333,888	-
<b>Net Cost of Services</b>	<b>-</b>	<b>(20,299)</b>	<b>(53,426)</b>	<b>757</b>	<b>319,317</b>	<b>246,349</b>

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

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

Adjs between Funding and Accounting Basis 2015/16			Adjs between Funding and Accounting Basis 2016/17			
Net change for pensions adjs (Note A)	Other differences (Note B)	Total Adjs		Net change for pensions adjs (Note A)	Other differences (Note B)	Total Adjs
£000	£000	£000		£000	£000	£000
18,755	(356)	18,399	Centralised Pay Budgets	10,318	(102)	10,216
(51,448)	(23)	(51,471)	Constabulary Non-Devolved budgets	(51,594)	(10)	(51,604)
<b>(32,693)</b>	<b>(379)</b>	<b>(33,072)</b>	<b>Net Cost of Service</b>	<b>(41,276)</b>	<b>(112)</b>	<b>(41,388)</b>
96,646	-	96,646	Other income and expenditure from Expenditure and Funding Analysis	101,597	-	101,597
<b>63,953</b>	<b>(379)</b>	<b>63,574</b>	<b>Difference between General Fund deficit and CIES Deficit on Provision of Services</b>	<b>60,321</b>	<b>(112)</b>	<b>60,209</b>

Note A - Net Change for the Pensions Adjustments

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

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

Note B – Other Differences

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

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

## 2. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	<b>2016/17</b>	2015/16
	<b>£000</b>	£000
<b>Expenditure</b>		
Employee expenses	237,592	253,195
Other service expenses	40,394	40,810
Charge for use of assets	14,514	14,294
Pensions interest cost	101,597	96,646
<b>Total expenditure</b>	<b>394,097</b>	<b>404,945</b>
<b>Income</b>		
Funding received from the PCC	(333,888)	(341,371)
<b>Total Income</b>	<b>(333,888)</b>	<b>(341,371)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>	<b>60,209</b>	<b>63,574</b>

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical judgements for the PCC Group have been made by the PCC. These judgements can be seen in Note 3 to the PCC/PCC Group Statement of Accounts. The critical judgements that impact on the CC are:

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

## 4. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The following amendments have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2017 but not yet adopted by the Code.

Amendment to the reporting of pension fund scheme transaction costs;

Amendment to the reporting of investment concentration (see paragraph 6.5.5.1 (m) of the 2017/18 Code)

The above amendments are not expected to have any 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 CC balance sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the PCC Group with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 14 is a sensitivity analysis that looks at the impact on net pensions' deficit of each of the significant actuarial assumptions. For instance, a 1% reduction in the discount rate assumption would result in an increase in the pension liability of the CC of around £748m. However, the assumptions interact in complex ways. During 2016/17, the CC's actuaries advised that the net pensions' liability had increased by £769m as a result of changes in financial assumptions. However, this included a reduction in discount rate of 1% for all schemes along with increases in assumptions re inflation, salaries and pensions which act to further increase the liability overall.

## 6. Events after the Balance Sheet date

### Accounting Policy

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

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

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

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

The Statement of Accounts was authorised for issue by the CC's CFO on 26 May 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## **NOTES TO THE MOVEMENT IN RESERVES STATEMENT**

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

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

	2016/17 £000	2015/16 £000
<b>Adjustments to Revenue Resources</b>		
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:		
• Pensions costs (transferred to (or from) the Pensions Reserve)	60,321	63,953
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	(112)	(379)
<b>Total Adjustments</b>	<b>60,209</b>	<b>63,574</b>

## 8. Unusable Reserves

### Accounting Policy

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

	31 March 2017 £000	31 March 2016 £000
Pensions Reserve	(3,696,641)	(2,945,779)
Accumulated Absences Account	(5,144)	(5,256)
<b>Total Unusable Reserves</b>	<b>(3,701,785)</b>	<b>(2,951,035)</b>

### **Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in accordance with statutory provisions. The CC accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the employer's contributions are made to the pension funds or any pensions for which the CC is directly responsible are eventually paid. The negative balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31 March 2017 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>(2,945,779)</b>	<b>(3,059,492)</b>
Re-measurements of the net defined benefit (liability)/ asset	(690,541)	177,666
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(152,062)	(158,733)
Employer's pensions contribution and direct payments to pensioners payable in the year	91,741	94,780
<b>Balance at 31 March</b>	<b>(3,696,641)</b>	<b>(2,945,779)</b>

## Accumulated Absences Account

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

	<b>31 March 2017 £000</b>	<b>31 March 2016 £000</b>
<b>Balance at 1 April</b>	<b>(5,256)</b>	<b>(5,635)</b>
Settlement or cancellation made at the end of the preceding year	5,256	5,635
Amounts accrued at the end of the current year	<u>(5,144)</u>	<u>(5,256)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	112	379
<b>Balance at 31 March</b>	<b>(5,144)</b>	<b>(5,256)</b>

## 9. Officers' Remuneration

### Accounting Policy Short term Employee Benefits

#### ***Benefits payable during employment***

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

#### ***Termination Benefits***

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

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

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

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

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

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

**Senior Officers and Relevant Police Officers 2015-16**

Post Holder Information (Post title only)	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contrihs	Pension Contribs.	Total Remuneration
	£	£	£	£	£	£	£
Chief Constable -S Finnigan	162,958	-	-	3,384	<b>166,342</b>	-	<b>166,342</b>
Deputy Chief Constable	130,829	-	-	5,396	<b>136,225</b>	30,976	<b>167,201</b>
Assistant Chief Constable-Territorial Divs. & Criminal Justice	104,201	-	-	5,899	<b>110,100</b>	24,532	<b>134,632</b>
Assistant Chief Constable-Specialist Ops.	101,336	-	-	4,476	<b>105,812</b>	23,935	<b>129,747</b>
Director of Resources	99,303	-	-	8,387	<b>107,690</b>	11,420	<b>119,110</b>

The CC employed an estimated 4,864 full time equivalents during 2016/17 (4,780 in 2015/16). 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):-

	2016/17			2015/16		
	Police Officers	Police Staff	Total	Police Officers	Police Staff	Total
£170,000 - £174,999	0	0	0	-	-	-
£165,000 - £169,999	0	0	0	-	1	1
£135,000 - £139,999	0	0	0	1	-	1
£125,000 - £129,999	0	0	0	-	1	1
£115,000 - £119,999	0	0	0	1	1	2
£110,000 - £114,999	0	0	0	4	-	4
£105,000 - £109,999	0	1	1	3	-	3
£100,000 - £104,999	0	0	0	3	-	3
£95,000 - £99,999	0	0	0	4	-	4
£90,000 - £94,999	0	0	0	5	-	5
£85,000 - £89,999	3	1	4	12	-	12
£80,000 - £84,999	7	0	7	14	-	14
£75,000 - £79,999	7	1	8	17	-	17
£70,000 - £74,999	7	2	9	9	3	12
£65,000 - £69,999	5	0	5	22	1	23
£60,000 - £64,999	9	1	10	13	2	15
£55,000 - £59,999	74	5	79	85	3	88
£50,000 - £54,999	131	9	140	113	5	118
<b>Total</b>	<b>243</b>	<b>20</b>	<b>263</b>	<b>306</b>	<b>17</b>	<b>323</b>

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Customs & Excise on form P11D and redundancy payments paid in the year. It does not include employers' pension contributions.

Senior Officers posts that are included in the Officers Remuneration note have been excluded.

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

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

	2016/17			2015/16		
	Police Officers	Police Staff	Total	Police Officers	Police Staff	Total
£165,000 - £169,999	0	0	0	0	1	1
£135,000 - £139,999	0	0	0	1	-	1
£125,000 - £129,999	0	0	0	-	1	1
£115,000 - £119,999	0	0	0	1	1	2
£110,000 - £114,999	0	0	0	4	-	4
£105,000 - £109,999	0	1	1	3	-	3
£100,000 - £104,999	0	0	0	3	-	3
£95,000 - £99,999	0	0	0	3	-	3
£90,000 - £94,999	0	0	0	5	-	5
£85,000 - £89,999	0	1	1	5	-	5
£80,000 - £84,999	0	0	0	9	-	9
£75,000 - £79,999	0	0	0	7	-	7
£70,000 - £74,999	0	0	0	6	2	8
£65,000 - £69,999	0	0	0	10	2	12
£60,000 - £64,999	0	0	0	10	2	12
£55,000 - £59,999	0	2	2	9	1	10
£50,000 - £54,999	0	0	0	9	2	11
	0	4	4	85	12	97

### 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:

#### 2016/17:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Voluntary Exit Scheme (Police Officers)	Total cost of exit packages in each band £
£0 - £20,000	0	10	2	90,048
£20,001 - £40,000	0	8	1	260,725
£40,001 - £60,000	0	4	0	194,974
£60,001 - £100,000	0	2	0	173,120
<b>Total</b>	<b>0</b>	<b>24</b>	<b>3</b>	<b>718,867</b>

**2015/16:**

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Voluntary Exit Scheme (Police Officers)	Total cost of exit packages in each band £
£0 - £20,000	-	19	17	404,138
£20,001 - £40,000	1	7	40	1,431,887
£40,001 - £60,000	1	4	32	1,847,024
£60,001 - £80,000	-	4	11	999,748
£80,001 - £100,000	1	1	1	259,129
£100,001 - £350,000	-	3	-	547,561
<b>Total</b>	<b>3</b>	<b>38</b>	<b>101</b>	<b>5,489,487</b>

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

Accounting Policy

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

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

2015/16 £000		2016/17 £000
404,945	Provision of services deficit in CC CIES prior to PCC funding	394,097
(158,733)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(152,062)
94,780	Replace with actual employer contribution funded by PCC	91,741
379	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	112
<b>341,371</b>	<b>PCC funding for PCC resources consumed at the request of the CC</b>	<b>333,888</b>
	Consisting of:	
14,294	Fair value adjustment for CC consumption of PCC property & equipment	14,514
327,077	Other resources	319,374
<b>341,371</b>	<b>Total PCC resources consumed at the request of the CC</b>	<b>333,888</b>

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

2015/16 £000		2016/17 £000
4,799	Buildings	4,757
6,903	Vehicles, Plant and Equipment	6,647
2,592	Intangible Assets	3,110
<b>14,294</b>	<b>Net Expenditure</b>	<b>14,514</b>

#### 11. Creditors

31 March 2016 £000		31 March 2017 £000
	Creditors comprise:	
4,018	Central Government Bodies	1,540
5,256	Other Entities and Individuals –Accumulated Absences	5,144
3,454	-Other employment-related creditors	5,132
<b>12,728</b>	<b>Total</b>	<b>11,816</b>

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

2015/16 £000		2016/17 £000
1,396	Net increase/(decrease) in revenue debtors	(800)
(1,017)	Net (increase)reduction in revenue creditors	912
(63,953)	Pension liability	(60,321)
<b>(63,574)</b>	<b>Total</b>	<b>(60,209)</b>

#### 13. Related Parties

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

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

The PCC has direct control over the Group's finances, including responsibility for funding of all pensions' liabilities, and is responsible for setting the Police and Crime Plan. The CC retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out

in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

A survey of the related party interests of the CC and members of his senior management team and their immediate family members was carried out in preparing the Statement of Accounts. The Director of Resources, who is a member of the CCs senior management team, is also the Constabulary member director of Jobs, Friends, and Houses Community Interest Company. Payments totalling £0.3m were made to the company during 2016/17 to support the activities of the company. No further material related party interests were disclosed.

## **Jointly Controlled Operations/Collaboration**

### Accounting Policy

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

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

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

The following groups the arrangements into:

Collaboration – Joint Operations

Collaboration – Third party payments

Collaboration – Grant/Self-funded.

### **Collaboration - Joint Operations**

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

2015/16 PCC Group Net Exp £000		2016/17		
		Grant Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
		£000	£000	£000
659	Regional Crime Unit	(159)	804	645
0	Regional Asset Recovery	(158)	158	0
50	Regional Intelligence Unit	(80)	109	29
358	Confidential Unit	(19)	488	469
550	Technical Surveillance unit	(24)	504	480
425	Protected Persons Service	0	302	302
167	Prisoner Intelligence	(69)	200	131
12	Operational Security Officer	(18)	31	13
1	Business Support	0	147	147
<b>2,222</b>		<b>(527)</b>	<b>2,743</b>	<b>2,216</b>

The following joint operations have Cheshire as lead force:

2015/16 PCC Group Net Exp £000		2016/17		
		Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
		£000	£000	£000
153	Joint Underwater Search Unit	(68)	221	153
248	Motorways and ANPR	0	250	250
48	Firearms Collaboration	0	62	62
16	Specialist Capability	0	0	0
3	Emergency Services Network	0	37	37
<b>468</b>		<b>(68)</b>	<b>570</b>	<b>502</b>

The Learning and Development collaboration is a joint operation between Lancashire and Cumbria. Lancashire's share of the costs is £3.1m (£2.638m in 2015/16).

Assets and Liabilities:

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

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

## **Collaboration – Third Party Payments**

The only significant one of these arrangements is the payment made towards the National Police Air Service (NPAS) which was £1.211m in 2016/17 (£1.256m in 2015/16).

## **Collaboration – Grant/Self-funding**

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

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

### **Accounting Policies**

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

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

The Police Pension Schemes are unfunded arrangements for uniformed police officers with defined benefit pension arrangements which are governed by statute.

The Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS), applies to other employees and is administered by Lancashire County Council. The LGPS is a contributory defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Public Service Pensions Act 2013). Teachers, police officers and fire-fighters are not included within the scheme as they come within other national pension schemes.

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

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

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2016, and at that date showed a funding level of 90% (assets of £6.0bn against accrued liabilities of about £6.7bn). The weighted average duration of the liabilities of the Fund as a whole is 16 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

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

[www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk)

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

#### **Local Government Scheme:**

Police staff and PCSOs are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC funded an employer's contribution of 11.5% during 2016/17 along with a cash contribution of £2.86m towards the deficit, the same as in 2015/16.

The liabilities of the Local Government Pension Scheme attributable to the staff employed by the CC are included in the balance sheet on an actuarial basis using the projected unit credit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using discount rates which now vary according to the duration of the employer's liability, with an average of 2.6% (3.6% in 2015/16), based on the weighted average of "spot yields" on AA rated corporate bonds.

The assets of the Local Government Pension Fund attributable to the PCC Group are included in the balance sheet at their fair value. The valuation at fair value has been classified into three levels according to quality and reliability of information used to determine fair values and in line with the fair value hierarchy. Further detail as to how it was determined which assets were included in each level can be found later in this note on Page 44.

#### **Police Officers:**

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

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

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

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (3.5% in 2015/16), 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 2017 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 2017 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987, 2006 and 2015 Schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the 2016/17 CIPFA Code of Practice Guidance Notes (Module 6, Para. B72) the assumption that such awards are "not usually subject to the same degree of uncertainty as the measurement of post-employment benefits" has been rebutted and injury awards are therefore accounted for, under IAS 19, in the same manner as the main police pension schemes. Liabilities are included on the CC balance sheet within the pensions, liabilities and shown separately in the notes to the accounts.

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

Service cost, comprising:

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

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

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

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

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

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

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

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

Experience gains/losses on liabilities –as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations although in 2015/16 the previously unrecognised liabilities resulting from the backdated change in commutation factors (Milne v GAD case) were reported as an actuarial loss. This is a one-off event, with no precedent as regards treatment. Actuarial loss was considered the most appropriate treatment.

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

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

### **Governance and Risk Management:**

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

### **Lancashire County Pension Fund**

#### **Governance:**

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

**Funding the liabilities:**

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

The weighted average duration of the CC's defined benefit obligation is 21 years, measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £8.5m contributions to the LGPS in 2017/18.

**Risks and Investment strategy:**

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

**Market Risk:**

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

**Other Price Risk:**

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

**Interest Rate Risk:**

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

**Currency risk:**

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

**Credit risk:**

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

### **Liquidity risk**

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

### **Other risks:**

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

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

### **Amendments, curtailments and settlements:**

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

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

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

### **Police Pension Schemes**

#### **Governance:**

These arrangements are managed by the employer, although this essentially involves administering the plan, including managing its cash flows. The requirement to set up Police Pension boards has resulted in the setting up of a North West Region Police Pension Board which is administered by the Constabulary. The Board comprises employer representatives as well as representatives of the individual scheme managers and carries out a variety of activities to assess governance arrangements.

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

Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 17 years in respect of the 1987 scheme, 31 years in respect of the 2006 scheme and 41 years in respect of the 2015 scheme (injury awards have a duration of 18 years), measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £83.4m contributions to the Police Schemes in 2017/18.

#### **Investment Risks:**

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

#### **Other risks:**

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

sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

#### Transactions Relating to Post-Employment Benefits

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

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CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>								
<b>Cost of Services:</b>								
<b>Service Cost comprising:</b>								
• Current service cost	9,840	11,203	37,279	45,696	2,974	3,429	50,093	60,328
• Past service costs	-	35	-	-	-	-	-	35
• Curtailment costs	139	1,542	-	-	-	-	139	1,542
• Admin. expenses	233	182	-	-	-	-	233	182
<b>Financing and Investment Income and Expenditure:</b>								
• Net Interest expense	3,526	4,015	94,690	89,486	3,381	3,145	101,597	96,646
<b>Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES</b>	<b>13,738</b>	<b>16,977</b>	<b>131,969</b>	<b>135,182</b>	<b>6,355</b>	<b>6,574</b>	<b>152,062</b>	<b>158,733</b>
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:</b>								
<b>Re-measurement of the net defined benefit liability, comprising:</b>								
• Re-measurements (assets)	(42,581)	(3,539)	-	-	-	-	(42,581)	(3,539)
• Experience (gains)/losses on Liabilities	(33,466)	-	-	9,606	-	-	(33,466)	9,606
• Actuarial (gains)/losses arising on changes in demographic assumptions	(2,559)	-	-	-	-	-	(2,559)	-
• Actuarial (gains)/losses arising on changes in financial assumptions	101,179	(24,767)	640,700	(153,440)	27,268	(5,526)	769,147	(183,733)
<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>36,311</b>	<b>(11,329)</b>	<b>772,669</b>	<b>(8,652)</b>	<b>33,623</b>	<b>1,048</b>	<b>842,603</b>	<b>(18,933)</b>
<b>Movement in Reserves Statement</b>								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(13,738)	(16,977)	(131,969)	(144,788)	(6,355)	(6,574)	(152,062)	(168,339)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>								
• Employers' contributions payable to scheme	8,584	9114	80,399	83,013	-	-	88,983	92,127
• Retirement benefits paid to pensioners	-	-	-	-	2,758	2,653	2,758	2,653

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

	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Present Value of the defined benefit obligation</b>	448,392	364,509	3,437,900	2,745,630	128,827	97,962	<b>4,015,119</b>	<b>3,208,101</b>
<b>Fair value of plan assets</b>	(318,478)	(262,322)	-	-	-	-	<b>(318,478)</b>	<b>(262,322)</b>
<b>Net liability arising from defined benefit obligation</b>	<b>129,914</b>	<b>102,187</b>	<b>3,437,900</b>	<b>2,745,630</b>	<b>128,827</b>	<b>97,962</b>	<b>3,696,641</b>	<b>2,945,779</b>

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

The total liability of £3,696.641m has a considerable impact on the net worth of the CC as recorded in the balance sheets, resulting in a net liability of £3,701.785m (including £5.144m for accumulated absences).

However, statutory arrangements for funding the liability mean that the financial position remains healthy:

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

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

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

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>364,509</b>	<b>368,455</b>
Current Service Costs	9,840	11,203
Interest on pensions liabilities	13,046	12,453
Contributions by scheme participants	2,949	2,889
Actuarial gains –changes in demographic assumptions	(2,559)	-
Actuarial (gains)/losses –changes in financial assumptions	101,179	(24,767)
Experience gains on liabilities	(33,466)	-
Benefits paid	(7,245)	(7,301)
Past Service/Curtailment Costs	139	1,577
<b>31 March</b>	<b>448,392</b>	<b>364,509</b>

<b>Unfunded Liabilities</b>	<b>Police Pension Schemes</b>		<b>Injury Benefits</b>	
	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>2,745,630</b>	<b>2,837,295</b>	<b>97,962</b>	<b>99,567</b>
Current Service Costs	37,279	45,696	2,974	3,429
Interest on pensions liabilities	94,690	89,486	3,381	3,145
Contributions by scheme participants	14,087	14,703	-	-
Experience gains/(losses) on liabilities	-	9,606	-	-
Actuarial (gains)/losses –changes in financial assumptions	640,700	(153,440)	27,268	(5,526)
Benefits paid	(94,486)	(97,716)	(2,758)	(2,653)
<b>31 March</b>	<b>3,437,900</b>	<b>2,745,630</b>	<b>128,827</b>	<b>97,962</b>

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

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>262,322</b>	<b>245,825</b>
Interest on plan assets	9,520	8,438
Admin Expenses	(233)	(182)
Employer Contributions	8,584	9,114
Contributions by scheme participants	2,949	2,889
Re-measurements (assets)	42,581	3,539
Benefits paid	(7,245)	(7,301)
<b>31 March</b>	<b>318,478</b>	<b>262,322</b>

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
NOTES TO THE ACCOUNTS

Unfunded Schemes	Police Pension Schemes		Injury Benefits	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
<b>1 April</b>	-	-	-	-
Employer Contributions	80,399	83,013	2,758	2,653
Contributions by scheme participants	14,087	14,703	-	-
Benefits paid	(94,486)	(97,716)	(2,758)	(2,653)
<b>31 March</b>	-	-	-	-

**Local Government Pension Scheme assets comprised:**

	Fair Value Input Level (if relevant)	31 March 2017 £000	31 March 2016 £000
<b>Cash and Cash Equivalents</b>		<b>3,322</b>	<b>9,020</b>
<b>Bonds</b>			
<u>By Sector</u>			
Corporate	1/2	5,230	5,343
Government	3	6,303	5,271
<b>Sub-Total Bonds</b>		<b>11,533</b>	<b>10,614</b>
<b>Property</b>			
<u>By Type</u>			
Retail	2	8,668	8,987
Commercial	2	19,387	16,229
<b>Sub-Total Property</b>		<b>28,055</b>	<b>25,216</b>
<b>Private Equity</b>			
UK	3	3,610	4,278
Overseas	3	16,886	11,519
<b>Sub-Total Private Equity</b>		<b>20,496</b>	<b>15,797</b>
<b>Other Investment Funds</b>			
Overseas Pooled Equity	1	140,793	20,922
Credit Funds	2/3	71,362	66,011
Infrastructure	3	38,427	20,961
Property	3	4,490	3,622
<b>Sub-Total Other Investment Funds</b>		<b>255,072</b>	<b>111,516</b>
<b>Equity Instruments</b>			
<u>By Industry</u>			
Consumer	1	-	28,495
Manufacturing	1	-	14,614
Energy and Utilities	1	-	5,476
Financial Institutions	1	-	15,911
Health and Care	1	-	9,519
Information Technology	1	-	16,144
<b>Sub-Total Equity</b>		<b>-</b>	<b>90,159</b>
<b>TOTAL ASSETS</b>		<b>318,478</b>	<b>262,322</b>

## Allocation into Fair Value Hierarchy

### Level 1

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

### Level 2

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

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

### Level 3

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

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

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

### Property Funds

The properties were valued at open market value at 31 March 2017 by independent property valuers GVA Grimley Limited in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

### Cash and cash equivalents

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

**Basis for Estimating Assets and Liabilities**

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

<b>Local Government Pension Scheme</b>	<b>2016/17</b>	<b>2015/16</b>
Mortality assumptions:		
Longevity at 65 for current pensioners (LGPS):		
Men	22.6	23.0
Women	25.2	25.6
Longevity at 65 for future pensioners (LGPS):		
Men	24.9	25.2
Women	27.9	27.9
Rate of inflation: CPI	2.3%	2.0%
Rate of increase in salaries	3.8%	3.5%
Rate of increase in pensions	2.3%	2.0%
Rate for discounting scheme liabilities	2.6%	3.6%

	<b>Police Officers 1987 Scheme</b>		<b>Police Officers 2006 Scheme</b>		<b>Police Officers 2015 Scheme</b>		<b>Injury Awards</b>	
	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2015/16</b>
Longevity at 60 for								
Men	28.4	28.2	28.4	28.2	28.4	28.2	25.8	25.6
Women	30.9	30.8	30.9	30.8	30.9	30.8	28.3	28.2
Longevity at 60 for future								
Men	30.8	30.7	30.8	30.7	30.8	30.7	28.1	28.0
Women	33.3	33.2	33.3	33.2	33.3	33.2	30.6	30.5
Rate of inflation: CPI	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%
Rate of increase in	3.8%	3.5%	3.8%	3.5%	n/a	n/a	3.8%	3.5%
Rate of increase in	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%	2.3%	2.0%
Rate for discounting	2.5%	3.5%	2.5%	3.5%	2.5%	3.5%	2.5%	3.5%

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

**Local Government Pension Scheme:**

	Impact on Defined benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	8,579	(8,579)
Rate of inflation (increase or decrease by 1%)	95,050	(95,050)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(93,080)	93,080
Rate of increase in salaries (increase or decrease by 1%)	26,420	(26,420)

**Police Officer Pension Schemes and Injury Benefits:**

	Impact on the Defined Benefit Obligation in the Scheme			
	Police Pension Schemes		Injury Benefits	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	+85,928	-85,928	+3,249	-3,249
Rate of inflation (increase or decrease by 1%)	+644,390	-644,390	+23,800	-23,800
Rate for discounting scheme liabilities (increase or decrease by 1%)	-631,070	+631,070	-23,360	+23,360
Rate of increase in salaries (increase or decrease by 1%)	+173,590	-173,590	+9,200	-9,200

## 15. Expenditure on Publicity

The CC's CIES includes £0.644m (£0.564m in 2015/16) in respect of certain categories of publicity including communication and consulting with Lancashire residents; this information is published in accordance with section 5(1) of the Local Government Act 1986. The categories are:

	2016/17	2015/16
	£000	£000
Publicity	640	561
Advertising -Recruitment	4	-
Advertising -Other	-	3
<b>Total Costs</b>	<b>644</b>	<b>564</b>

## 16. External Audit Costs

In 2016/17 the following fees are included in the CC's CIES relating to external audit.

	2016/17	2015/16
	£000	£000
Fees payable to Grant Thornton, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the <i>Code of Audit Practice</i> prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act.	19	19
<b>Total Costs</b>	<b>19</b>	<b>19</b>

## 17. Contingent Liabilities

As the PCC funds all expenditure incurred by the CC and holds all reserves, the responsibility for disclosing contingent liabilities is his. As at the authorised for issue date there was one contingent liabilities to disclose, as follows:

The Chief Constable of Lancashire, along with other Chief Constables and the Home Office, currently has 205 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations. In the case of the Judiciary claims the claimants were successful and in the Firefighters case the respondents were successful. Both of these judgements are subject to appeal, the outcome of which may determine the outcome of the Police claims. The Tribunal has yet to set a date for a preliminary or substantive Police hearing. Legal advice suggests that there is a strong defence against the Police claims. The quantum and who will bear the cost is also uncertain, if the claims are partially or fully successful. For these reasons, no provision has been made in the 2016/17 Accounting Statements.”

## STATEMENT OF GENERAL ACCOUNTING POLICIES

### **i. General**

The Statement of Accounts summarises the CC's transactions for the 2016/17 financial year and the position at the year-end 31 March 2017. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Accounts and Audit Regulations 2015.

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

### **ii. Cost Recognition**

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

### **iii. Accruals of Expenditure**

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

Supplies are recorded as expenditure when they are consumed.

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

### **iv. Working Capital**

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

### **v. Exceptional Items**

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

**vi. VAT**

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

**vii. Overheads and Support Services**

The 2016/17 Code introduced the requirement to report service segments in the CIES based on the way in which services are managed and reported. Overhead budgets are held as separate budgets and reported to management in the same way as operational budget with no ultimate re-apportionment across operating segments.

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### POLICE PENSION ACCOUNT

The CC administers the Police Pension Fund Account (the Account) on behalf of the PCC, in accordance with the Police Reform and Social Responsibility Act 2011. Amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). During the year all payments and receipts are made to and from the Police Fund, which is held by the PCC. This statement shows the income and expenditure for each of the 1987, the 2006 and the 2015 Police Pension Schemes.

POLICE PENSION ACCOUNT	NOTES	2016/17				2015/16			
		1987 scheme £000	2006 scheme £000	2015 scheme	Total £000	1987 scheme £000	2006 scheme £000	2015 scheme	Total £000
<b>Contributions receivable</b>									
Employer contributions at 21.3% of pensionable pay	3	(8,651)	(390)	(12,923)	(21,964)	(10,488)	(442)	(11,902)	(22,832)
Early Retirements		(2,277)	(69)	(73)	(2,419)	(2,347)	-	(300)	(2,647)
		<b>(10,928)</b>	<b>(459)</b>	<b>(12,996)</b>	<b>(24,383)</b>	<b>(12,835)</b>	<b>(442)</b>	<b>(12,202)</b>	<b>(25,479)</b>
Officer Contributions		(5,806)	(219)	(8,060)	(14,085)	(7,034)	(242)	(7,423)	(14,699)
<b>Total Contributions Receivable</b>		<b>(16,734)</b>	<b>(678)</b>	<b>(21,056)</b>	<b>(38,468)</b>	<b>(19,869)</b>	<b>(684)</b>	<b>(19,625)</b>	<b>(40,178)</b>
<b>Transfers In</b>		<b>(305)</b>	<b>(4)</b>	<b>(209)</b>	<b>(518)</b>	<b>(558)</b>	<b>(211)</b>	<b>(134)</b>	<b>(903)</b>
<b>Benefits Payable</b>									
Pensions		72,638	18	91	72,747	70,303	6	25	70,334
Commutations and lump sum retirement benefits		21,920	22	71	22,013	25,025	39	307	25,371
Lump sum death benefits		-	-	112	112	150	-	-	150
Other						1,726	-	-	1,726
<b>Total Benefits Payable</b>		<b>94,558</b>	<b>40</b>	<b>274</b>	<b>94,872</b>	<b>97,204</b>	<b>45</b>	<b>332</b>	<b>97,581</b>
<b>Payments on Account of Leavers</b>									
Transfer values out		110	-	-	110	1,032	-	-	1,032
Refund of contributions		3	-	16	19	1	-	-	1
<b>Total Payments on Account of Leavers</b>		<b>113</b>	<b>-</b>	<b>16</b>	<b>129</b>	<b>1,033</b>	<b>-</b>	<b>-</b>	<b>1,033</b>
<b>Net amount payable/(receivable) for the year contribution from Police Fund</b>		<b>77,632</b>	<b>(642)</b>	<b>(20,975)</b>	<b>56,015</b>	<b>77,810</b>	<b>(850)</b>	<b>(19,427)</b>	<b>57,533</b>
Contribution from the Police Fund not met by Home Office grant	2	(1,178)	(53)	(1,759)	(2,990)	(1,428)	(60)	(1,620)	(3,108)
Additional contrib. from the Police Fund met by Home Office grant		(76,454)	695	22,734	(53,025)	(76,382)	910	21,047	(54,425)
<b>Net amount payable/(receivable)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NET ASSET STATEMENT

31 March 2016 £000		31 March 2017 £000
(3,229)	Unpaid pensions benefits	(346)
	Payment in Advance	5,428
3,229	Amounts owed from/(to) PCC's General Fund	(5,082)
-	<b>Net Assets</b>	-

## NOTES TO THE FINANCIAL STATEMENT

### 1. Basis of preparation

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

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

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2016/17. It summarise the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the CIES and balance sheets of the CC and the PCC Group.

This statement does not form part of the Statement of Accounts for either the PCC or the CC but has been audited as a separate statement and is covered by the audit opinion on Page 54.

All the pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from employees and employers (in this instance the PCC) and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from/to the Police General Fund, which, prior to 2015/16 was financed in full by top-up grant from the Home Office.

Membership at 31 March is as follows:

	1987		2006		2015		Total	
	31/3/17	31/3/16	31/3/17	31/3/16	31/3/17	31/3/16	31/3/17	31/3/16
Active Members	860	1,129	45	53	1,924	1,646	2,829	2,828
Deferred	539	527	83	75	178	10	800	612
Current Pensioners (incl widows/depends.)	4,253	4,148	5	2	24	10	4,282	4,160
	<b>5,652</b>	<b>5,804</b>	<b>133</b>	<b>130</b>	<b>2,126</b>	<b>1,666</b>	<b>7,911</b>	<b>7,600</b>

2. **Actuarial Valuation**

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

3. **Accounting policies**

**General**

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

**Employers' Contributions**

The employers' contribution rate for all the pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2016/17 was set at 21.3%.

**Employees' Contributions**

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

4. **Net Asset Statement**

The net asset statement does not include liability to pay pensions and other benefits after the 31 March 2017 These liabilities remain ultimately with the PCC Group and have been reflected in the CC and PCC Group Balance Sheets. Details of these liabilities can be found in Note 14 to the main statement of accounts.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2016/17  
AUDITOR'S REPORT

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## Lancashire Constabulary Annual Governance Statement 2016 - 17



### Scope of Responsibility

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

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

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

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

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

### Purpose of the Governance Framework

Governance is about how the Chief Constable and PCC ensure that they are doing the right things, in the right way, for the right outcomes, in a timely, inclusive, open, transparent and accountable manner. A framework of governance and internal control has been established, comprising the systems and processes, culture and values by which the Constabulary is directed and controlled, and the activity through which it accounts to and engages with communities. It enables the Constabulary to monitor achievement against the strategic objectives, agreed with the PCC and outlined in the Police and Crime Plan, to consider whether those objectives have delivered efficient, effective services and value for money.

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

The governance framework has been in place up to and including the year ending 31 March 2017 and up to the date of approval of the Statement of Accounts.

### The Governance Framework

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

1. Focusing on the purpose of the PCC and the Constabulary and on outcomes for the community, and creating and implementing a vision for the local area.
2. Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles.

3. Promoting the values of the PCC and the Constabulary and demonstrating the values of good governance by upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of the workforce to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.

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

The Constabulary has established a clear ambition, mission, and set of values. The Ambition is a determination to consistently be the best Force in the country, delivering the best quality of service to the public with a mission to keep people safe and feeling safe, particularly the most vulnerable. The Constabulary commitment to Emergency Response, Local Policing and Serious Crime is underpinned by the expectation that officers and staff adhere to a set of values that include Fairness, Integrity and Respect delivered with Professionalism and Optimism.. The key focus of the force is ensuring that it is able to deliver the most efficient and effective policing service for the people of Lancashire. Supporting these are Culture, Technology, Partnerships and Leadership which are seen as the key “enablers” to allow the Constabulary to deliver its Ambition.

The overall HMIC assessment for the Constabulary in the PEEL Inspection of 2016 was :-

*The extent to which the constabulary is effective, efficient and legitimate at keeping people safe and reducing crime is good.*

Value for money is a strategic priority for the Constabulary and the financial context in which the Constabulary operates makes achieving value for money and delivering the necessary savings a critical objective for the force. HMIC have consistently found, in their Valuing the Police (VtP) Inspection programme and the new PEEL (Police, Efficiency, Effectiveness and Legitimacy) inspections, that the Constabulary is well prepared to deal with the challenges of the financial cuts. In the PEEL Inspection of 2016, HMIC found that:

*Lancashire Constabulary has a good understanding of current and future demands for its services. It has a proven track record of making savings and prudent financial plans.*

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

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

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

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

The budget and medium term financial forecast (MTFF) are set by the PCC, with regular updates around budget monitoring and progress provided throughout the year. The Statement of Accounts will be approved by the PCC and Chief Constable in July 2017.

The Constabulary routinely surveys members of the community and victims of crime to assess levels of satisfaction and confidence with the service provided. Quality of service issues are identified and tracked at both team and individual officer level, to allow remedial action to be taken where necessary. Complaints and Satisfaction and Confidence data are monitored as part of the core performance

framework and are routinely reported to the PCC, through the Strategic Scrutiny Meeting and the joint PCC and Constabulary Audit and Ethics Committee.

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

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

The PCC and Chief Constable have approved a suite of documents, which set out the local governance arrangements. These include Standing Orders, the Financial Regulations and a Scheme of Consent/Delegation.

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

The policing priorities agreed with the PCC form part of the Lancashire-wide community safety priorities, which are identified each year by the Lancashire Community Safety Partnership. The Lancashire County Community Safety Strategy Group (LCCSSG) was established to govern the pan-Lancashire approach to community safety and ensure a more co-ordinated effort; the Constabulary is a key partner within that group. There is also a regular series of meetings held with Lancashire local authority chief executives and senior leads from other public sector agencies such as Fire and Rescue and North West Ambulance service, at which information on joint priorities and common issues is shared.

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

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

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

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

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

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

The Constabulary has a robust complaints process, managed by the Professional Standards Department (PSD), which is responsible for the receipt, recording and investigation of public complaints and

misconduct allegations. The PSD also has specific responsibilities to support the Independent Police Complaints Commission (IPCC) in discharging their statutory role.

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

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

Professional standards matters are monitored by the Constabulary, with an action plan to oversee the implementation of recommendations arising from HMIC inspections of integrity and legitimacy.

The Constabulary has established processes for registering business interests and an electronic recording system for gifts and hospitality, which are routinely audited.

The Constabulary has introduced the new national Code of Ethics for policing as part of its established overall approach to values led behaviour, supported by the existing standards it has outlined in the code of conduct. The PCC and Constabulary have also extended the remit of the audit committee to incorporate governance over ethical matters for both organisations. The committee comprises an Independent chair and members to provide independent scrutiny and assurance over the ethics framework. This is supported by a Tactical Ethics Panel within the Constabulary, which considers and advises on ethical dilemmas.

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

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

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

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

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

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

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

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

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

Items outside of the delegated authority of the Chief Constable's CFO are submitted to the Joint Management Board (JMB) for approval by the PCC. In addition, and to strengthen the transparency of decision making, those items approved by the Constabulary CFO/ Finance Manager are reported to the PCC for information and to ensure that he remains informed of decisions being made under delegated authority.

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

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

The constabulary has also recently created a new post of Head of Legal which will strengthen the decision –making process and strengthen the scrutiny of decision-making.

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

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

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

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

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

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

The Constabulary is continuing to take an innovative approach to supporting both the physical and emotional well-being of its workforce; the Well-being Strategy is designed to support the Constabulary's wider activity in implementing cultural change. Well-being Ambassadors have been introduced across the force, in all divisions and departments, to support officers and staff in need and recent further investment has been agreed for the Health Services function to ensure that the capacity, capability and condition of employees is maintained.

In the PEEL Inspection of 2016 (Legitimacy element), HMIC also found:

*Internally, officers and staff understand the importance of treating one another with fairness and respect. The force has clear leadership expectations and values that place a strong emphasis on the well-being of the workforce.*

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

In the PEEL Inspection of 2016 (Legitimacy element), HMIC also found:

*Lancashire Constabulary has an effective approach to preventing crime and reducing anti-social behaviour. The force communicates well with the people of Lancashire, has effective partnership arrangements with other organisations, and has a sound understanding of the public's concerns. Officers and staff are directed towards the most significant threats and they respond effectively.*

*The workforce has a good understanding of the importance of treating the public with fairness and respect. The force has well established arrangements in place to obtain feedback from the people of Lancashire and it is continuing to develop these. It gives complaints from the public careful consideration, and responds to them appropriately.*

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

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

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

Independent surveys assess both confidence of the general public and victim satisfaction with the Constabulary, providing useful perception data to support hard performance statistics relating to policing

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

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

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

## Overall Assurance Summary

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

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

## Review of Effectiveness

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

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

**Taking all these factors into account, the Constabulary system of internal control for 2016-2017 is considered to be both satisfactory and effective.**

## Ensuring Effective Governance of Organisational Risks

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

### 1. Financial Pressures

Medium term financial planning indicates that the Constabulary must make further cash savings of around £13m in 2018/19 and 2019/20, in addition to the £79m savings identified since 2011-12. There is also an expectation that a new funding formula will be introduced in 2018/19. This represents a significant challenge given the scale of reductions already made and the structural changes made to the constabulary's operating model. This presents the risk of a negative impact on service delivery and organisational resilience.

**Action to address:** in addition to the measures outlined within this review, the Constabulary has a well-established change programme, which has been systematically developing a future policing model for Lancashire. The programme is designed to take account of future resourcing levels, determined by financial scenario planning, and ensures that the Constabulary is configured in such a way that it can sustain a high quality, efficient and effective policing service for the county. The

Constabulary will also continue to lead public sector services in developing multi-agency working arrangements, which deliver improved outcomes and better value for money. The successful award of £4.2m for the period 2015/16 to 2016/17 from the Home Office Police Innovation Fund has provided helpful “seedcorn” investment to deliver sustainable early action interventions to reduce demand.

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

## 2. Demand Pressures

The Constabulary recognises that the changing nature of demand on policing, including the rise in the volume of historic and current sexual offences places a significant strain on resources, particularly as a result of the massive rise in the analysis of digital media. This results in backlogs in analysis which results in delays in case management. In order to mitigate the risk associated with this the Constabulary has previously secured additional funding from the PCC of £1m to reduce the backlogs. However, the demand for further resources in this area is huge and has already been identified as a significant risk and will require capacity and capability building over the medium term to manage the risk.

The Government decision to allow “fracking” in Lancashire has already had an impact on the Constabulary’s finances in 2016/17 with a significant policing demand continuing into 2017/18. Whilst this places financial pressure on the Constabulary the impact on resources is also significant causing pressure in operational service delivery The Constabulary's SMT receive monthly reports as part of the operational review of risk, threat and demand. The Constabulary is also placing significant emphasis in understanding its demand and dealing with it through a combination of preventative, early action measures and better partnership working across the public sector.

**Chief Officer Lead:** Deputy Chief Constable

## 3. Staff Capacity , Capability and Condition

The Constabulary faces significant challenges arising from the continuing requirement to meet financial challenges and the demanding nature and complexity of police demand. The ability to ensure that employees have sufficient capacity, sufficient skills and good wellbeing is essential to ensure that the challenges which the organisation face can be met and that the organisation continues to deliver on the priorities set by the PCC and the Chief Constable. In order to address these challenges specific focus has been placed on Organisational Development to ensure that the capacity and capability issues are identified and addressed and in terms of wellbeing additional investment has been agreed for Health services which will assist with helping employees to better deal with health challenges.

**Chief Officer Lead:** Deputy Chief Constable

## Summary

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

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

*To be finalised and signed after the accounts have been audited*

**Signed:**

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

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

**Date : XX July 2017**

**Date : XX July 2017**

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## GLOSSARY

### **Accounting Policies**

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

### **Accrual**

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

### **Actuary**

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

### **Actuarial gains and losses**

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

### **Agency services**

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

### **Amortisation**

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

### **Appropriation**

A contribution to or from a financial reserve.

### **Audit qualification**

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

### **Budget**

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

### **Capital expenditure**

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

### **Capitalisation**

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

### **Capital investment**

Money invested in capital projects.

### **Capital projects**

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

### **Capital schemes**

Another term for 'capital projects'.

### **Capitalise**

To treat as capital expenditure rather than revenue expenditure.

### **Cash balance**

Cash available to invest on the money market.

### **Cash Equivalents**

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

**Cash transactions**

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

**Central items**

Central overheads e.g. payroll costs.

**Change in Accounting Estimate**

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

**CIPFA**

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

**Contingent liabilities**

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

**Corporate and democratic core**

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

**Corporate governance**

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

**Council Tax precept**

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

**Creditors**

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

**Current assets and liabilities**

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

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

**Current service cost (IAS 19)**

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

**Curtailed cost (IAS 19)**

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

**Debtors**

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

**Defined Benefit Scheme**

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

**Depreciation**

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

**Discretionary benefits**

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

**Devolved financial management (DFM)**

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

**Employer's pension contributions**

Payments to the pension scheme made by the Authority for current employees.

**Fair value**

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

**Financial year**

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

**Fixed assets**

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

**General Fund**

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

**Government grants**

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

**Historic cost**

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

**Impairment**

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

**Interest cost (pensions)**

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

**Inventory**

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

**Market value**

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

**Materiality**

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

**Net book value**

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

**Net pension liability**

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

**Nil consideration**

Where no charge is made for an item.

**Non-cash adjustments**

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

**Non-distributed costs**

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

**Operating lease**

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

**Operational assets**

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

**Past service cost or gain (IAS19)**

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

**Pension enhancements**

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

**Prior period adjustments**

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

**Projected unit method (Pensions)**

An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

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

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

**Provisions**

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

**Public Works Loan Board (PWLB)**

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**Reconciliation**

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

**Related party**

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

**Reserves**

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

**Residual value**

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

**Revenue account**

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

**Revenue expenditure**

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

**Reversed out**

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

**Specific grants**

Government grants for a particular service.

**Total net worth**

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

**Transfer in**

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

**Transfer out**

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

**Transfer value**

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

**Useful life**

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

**Write down**

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